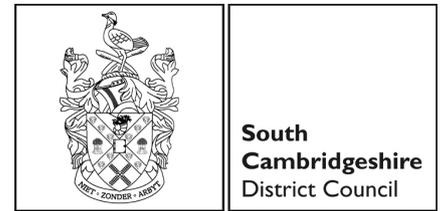


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18 March 2019

To: Chairman – Councillor Tony Mason  
Vice-Chairman – Councillor Nick Sample  
Members of the Audit and Corporate Governance Committee – Councillors  
John Batchelor, Mark Howell, Brian Milnes, Heather Williams and Eileen Wilson

Quorum: 3

Dear Councillor

You are invited to attend the next meeting of **AUDIT AND CORPORATE GOVERNANCE COMMITTEE**, which will be held in **SWANSLEY ROOM A AND B - SOUTH CAMBRIDGESHIRE HALL** at South Cambridgeshire Hall on **TUESDAY, 26 MARCH 2019** at **9.30 a.m.**

Members are respectfully reminded that when substituting on committees, subcommittees, and outside or joint bodies, Democratic Services must be advised of the substitution *in advance of* the meeting. It is not possible to accept a substitute once the meeting has started. Council Standing Order 4.3 refers.

Yours faithfully  
**Mike Hill**  
Interim Chief Executive

**The Council is committed to improving, for all members of the community, access to its agendas and minutes. We try to take all circumstances into account but, if you have any specific needs, please let us know, and we will do what we can to help you.**

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<b>AGENDA</b>		<b>PAGES</b>
<b>1. Apologies for Absence</b>	To receive Apologies for Absence from Committee members.	
<b>2. Declarations of Interest</b>		
<b>3. Minutes of Previous Meeting</b>	To confirm the minutes of the meeting held on 25 September 2018 as a correct record.	<b>1 - 4</b>
<b>DECISION ITEMS</b>		
<b>4. Annual Governance Statement and Local Code of Governance</b>		<b>5 - 22</b>
<b>AUDIT REPORTS</b>		
<b>5. External Audit Progress Report - Audit of the Accounts for year ended 31 March 2018</b>		<b>23 - 40</b>

## **INFORMATION ITEMS**

- 6. Annual Treasury Management (Outturn) Report 2017/18** **41 - 58**
- 7. Half-Year Treasury Management Report 2018/19** **59 - 74**
- 8. Regulation of Investigatory Powers Act 2000 (RIPA) Amendments to Policy & Update on Use of RIPA**
- 9. Matters of Topical Interest**
- 10. Date of Next Meeting**  
Subject to discussions with the External Auditor, an additional meeting will be scheduled in April.



## **GUIDANCE NOTES FOR VISITORS TO SOUTH CAMBRIDGESHIRE HALL**

### **Notes to help those people visiting the South Cambridgeshire District Council offices**

While we try to make sure that you stay safe when visiting South Cambridgeshire Hall, you also have a responsibility for your own safety, and that of others.

#### **Security**

When attending meetings in non-public areas of the Council offices you must report to Reception, sign in, and at all times wear the Visitor badge issued. Before leaving the building, please sign out and return the Visitor badge to Reception.

Public seating in meeting rooms is limited. For further details contact Democratic Services on 03450 450 500 or e-mail [democratic.services@scambs.gov.uk](mailto:democratic.services@scambs.gov.uk)

#### **Emergency and Evacuation**

In the event of a fire, a continuous alarm will sound. Leave the building using the nearest escape route; from the Council Chamber or Mezzanine viewing gallery this would be via the staircase just outside the door. Go to the assembly point at the far side of the staff car park opposite the staff entrance

- **Do not** use the lifts to leave the building. If you are unable to use stairs by yourself, the emergency staircase landings have fire refuge areas, which give protection for a minimum of 1.5 hours. Press the alarm button and wait for help from Council fire wardens or the fire brigade.
- **Do not** re-enter the building until the officer in charge or the fire brigade confirms that it is safe to do so.

#### **First Aid**

If you feel unwell or need first aid, please alert a member of staff.

#### **Access for People with Disabilities**

We are committed to improving, for all members of the community, access to our agendas and minutes. We try to take all circumstances into account but, if you have any specific needs, please let us know, and we will do what we can to help you. All meeting rooms are accessible to wheelchair users. There are disabled toilet facilities on each floor of the building. Infra-red hearing assistance systems are available in the Council Chamber and viewing gallery. To use these, you must sit in sight of the infra-red transmitter and wear a 'neck loop', which can be used with a hearing aid switched to the 'T' position. If your hearing aid does not have the 'T' position facility then earphones are also available and can be used independently. You can get both neck loops and earphones from Reception.

#### **Toilets**

Public toilets are available on each floor of the building next to the lifts.

#### **Recording of Business and Use of Mobile Phones**

We are open and transparent about how we make decisions. We allow recording, filming and photography at Council, Cabinet and other meetings, which members of the public can attend, so long as proceedings at the meeting are not disrupted. We also allow the use of social media during meetings to bring Council issues to the attention of a wider audience. To minimise disturbance to others attending the meeting, please switch your phone or other mobile device to silent / vibrate mode.

#### **Banners, Placards and similar items**

You are not allowed to bring into, or display at, any public meeting any banner, placard, poster or other similar item. Failure to do so, will result in the Chairman suspending the meeting until such items are removed.

#### **Disturbance by Public**

If a member of the public interrupts proceedings at a meeting, the Chairman will warn the person concerned. If they continue to interrupt, the Chairman will order their removal from the meeting room. If there is a general disturbance in any part of the meeting room open to the public, the Chairman may call for that part to be cleared. The meeting will be suspended until order has been restored.

#### **Smoking**

Since 1 July 2008, South Cambridgeshire District Council has operated a Smoke Free Policy. No one is allowed to smoke at any time within the Council offices, or in the car park or other grounds forming part of those offices.

#### **Food and Drink**

Vending machines and a water dispenser are available on the ground floor near the lifts at the front of the building. You are not allowed to bring food or drink into the meeting room.

# Agenda Item 3

## SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

Minutes of a meeting of the Audit and Corporate Governance Committee held on  
Tuesday, 25 September 2018 at 9.30 a.m.

PRESENT:	Councillor Tony Mason – Chairman Councillor Nick Sample – Vice-Chairman	
Councillors:	John Batchelor Brian Milnes Eileen Wilson	Mark Howell Heather Williams
Officers:	Patrick Adams Suzy Brandes Alex Colyer Tracey Flack Rory McKenna Caroline Ryba	Senior Democratic Services Officer Principal Accountant (General Fund & Projects) Executive Director Principle Accountant Deputy Head of Legal Practice Head of Finance
Auditors:	Jonathan Tully	Head of Shared Internal Audit

Councillors John Williams were in attendance, by invitation.

### 1. APOLOGIES FOR ABSENCE

There were no Apologies for Absence.

### 2. DECLARATIONS OF INTEREST

Councillor John Batchelor declared a non pecuniary interest as a Director of Ermine Street Housing Ltd.

### 3. MINUTES OF PREVIOUS MEETING

The minutes of the meeting held on 31 July were confirmed as a correct record, subject to the inclusion of the following amendments to the reports made at that meeting:

- The report at agenda item 4, was dated 25 June when it should have been dated 25 July.
- The report at agenda item 6, was dated 31 August when it should have been dated 31 July.
- The report at agenda item 7, was dated 31 August when it should have been dated 31 July.

### 4. EXTERNAL AUDIT PROGRESS REPORT FOR 2017/18

The Principle Accountant introduced this report from External Audit, who were currently unable to state when their audit of the 2017/18 accounts would be completed. She explained that officers were liaising with External Audit regarding their queries on the trial balance, which needed to be addressed before the initial audit could be completed. It was noted that External Audit's other queries, such as those regarding the fixed asset register and Section 106 payments, were technical questions that were not delaying the initial audit.

The Committee expressed disappointment at the fact that the audit had not yet been completed and the established timetable had not been adhered to. Concern was expressed at the implications of the delay. It was understood that 10% of Councils had not been able to get their accounts signed off by the deadline. It was noted that the Council would be charged extra for additional work carried out by the External Auditors due to the lateness in the signing off of the accounts.

It was understood that accountancy were a relatively small section, where absences mattered and the team were not fully staffed. The Interim Manager's contract had expired before the preparatory work for External Audit had been agreed. Temporarily providing more resources was only a short-term solution and the plan was to fill the vacant positions with permanent staff. The way in which the accounts were compiled would have to be changed and it was hoped that the new Financial Management System, which had been adopted by the City Council, would assist the process in future years.

Councillor John Williams, Lead Member for Finance, agreed that changes were necessary to avoid a repetition in future years. The Committee were supportive of this.

#### **Housing Revenue Account (HRA)**

The Executive Director agreed to provide a written response regarding the £1.1 million variance regarding the HRA. It appeared that the Right to Buy was being slowly phased out. However, the Council were being cautious by assuming that it would still be in place in 2019.

The Executive Director explained that officers had a good working relationship with the External Auditors. In response to questioning the Head of Finance explained that External Audit should be in a position to take the audited accounts to the next meeting of the Committee in November.

The Committee **NOTED** the report.

### **5. INTERNAL AUDIT QUARTERLY PROGRESS REPORT**

The Head of Shared Internal Audit presented this report on the work of Internal Audit between March 2018 to September 2018.

#### **Agency staff**

It was noted that temporary staff had been employed by Internal Audit and a recent permanent appointment had been made. There was no conflict of interest between the employment of temporary staff and the audit of agency workers.

#### **Working with External Audit**

It was noted that Internal Audit and External Audit contacted each other regularly and shared information. Part of the work of External Audit included the auditing of Internal Audit and no concerns had been raised. The Head of Shared Internal Audit agreed to consider ways in which working with External Audit could assist the auditing of accounts in future years.

The Committee **NOTED** the report.

### **6. RISK MANAGEMENT STRATEGY**

The Principal Accountant presented this report, which invited the Committee to approve the draft Risk Management Strategy. It was noted that the companies controlled by the Council had their own Risk Registers.

**Minor amendments**

It was agreed that the terms Gross Risk and Net Risk should be used exclusively instead of also referring to Inherent Risk and Current risk in paragraph 13 of the report and Appendix C.

It was agreed that the Scrutiny and Overview Committee should be included as one of the Groups that had roles and responsibilities in the Risk Management Process.

It was suggested that the description "Dead cert" for a risk that was inevitable was too colloquial for a Council policy and should be amended. It was also suggested that it could be useful to have a flow chart, showing how various committees mitigated the risks.

The Principal Accountant agreed to distribute the draft Risk Management Process to the Committee, which was missing from the agenda.

**Training from the Council's insurer**

It was noted that Councillors were being offered training on risk management by Zurich, the Council's insurer on Tuesday 13 November from 3pm to 5pm. It was understood that the management of risk could affect the Council's insurance premium.

**Baseline risk**

It was noted that the Council set a baseline risk of a loss of £50,000 before taking action. This threshold figure of £50,000 was used to determine whether a risk was assessed as a "noticeable effect" impact or "some limited disruption" impact.

**Housing stock**

The Executive Director explained that Council houses were not covered in the event of loss, as the risk was managed by having the stock in many locations throughout the District, making a number of losses very unlikely.

The Committee **AGREED** the draft Risk Management Strategy, with delegated approval to the Executive Director to make the minor amendments agreed by the Committee.

**7. MATTERS OF TOPICAL INTEREST**

It was agreed that officers should respond to actions agreed in the minutes at the subsequent meeting.

**Officer register of interests**

The Deputy Head of Legal Practice explained that as a result of the Committee's discussions on this matter, new staff were now informed of the need to declare interests on a central register, as part of their induction. It was noted that officers were bound by the Local Government Act 1972 and could face criminal sanctions for any breach.

**Regulatory of Investigatory Powers Act (RIPA)**

The Deputy Head of Legal Practice explained that the above powers had been used, but as the investigation was currently ongoing, this matter could not yet be reported.

**8. DATE OF NEXT MEETING**

It was noted that this was scheduled for Tuesday 20 November at 9:30am.

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**The Meeting ended at 11.30 a.m.**

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**REPORT TO:** Audit and Corporate Governance  
Committee  
**LEAD OFFICER:** Executive Director (Corporate Services)

26<sup>th</sup> March 2019

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## **Annual Governance Statement and Local Code of Governance**

### **Purpose**

1. This report presents the Annual Governance Statement (AGS) for 2017/18, for approval by the Audit & Corporate Governance Committee.
2. The purpose of this report is to provide an update on the Annual Governance Statement, including any progress of actions identified in the previous year, the annual review of effectiveness, and to communicate any new governance issues.

### **Recommendations**

3. Members of the committee should approve the Annual Governance Statement in advance of the Statement of Accounts. To help complete this members should note:
  - the arrangements for compiling, reporting on and signing the AGS;
  - the progress made on issues reported in the previous year;
  - the current review of effectiveness
  - the issues considered for inclusion in the current AGS;

### **Reasons for Recommendations**

4. The Accounts and Audit Regulations and the CIPFA guidance establishes that the committee should approve the Annual Governance Statement (AGS). The AGS has been updated, following the previous committee approval in July 2018.

### **Background**

#### Scope of the AGS

5. Internal control and risk management are recognised as important elements of good corporate governance. The scope of governance, as covered in the AGS, spans the whole range of the Council's activities and includes those designed to ensure that:
  - The Council's policies are implemented in practice;
  - High quality services are delivered efficiently and effectively;
  - The Council's values and ethical standards are met;
  - Laws and regulations are complied with;
  - Required processes are adhered to;
  - Its financial statements and other published information are accurate and reliable;  
and
  - Human, financial and other resources are managed efficiently and effectively.

### Arrangements for compiling the AGS

6. The Accounts and Audit Regulations require the Council to review its governance arrangements, and prepare an AGS to accompany the Statement of Accounts. The AGS should communicate how we are complying with our Local Code of Governance.
7. The Chartered Institute of Public Finance and Accountancy (CIPFA), in conjunction with the Society of Local Authority Chief Executives (SOLACE), have produced a framework for delivering good governance in local government. The framework guidance "Delivering Good Governance in Local Government Framework 2016" is used as a guide in compiling the AGS.
8. Arrangements for compiling the AGS have been coordinated through Internal Audit and the Policy & Performance teams, with input from the key stakeholders and management.
9. Assurances from the work of the Internal Audit team have been reviewed and have been used to inform the AGS and its associated action plan. A professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector.

### Arrangements for reporting on and signing off the AGS

10. The Accounts and Audit regulations require the Committee to approve the AGS. Good practice guidance recommends the AGS is signed by the Leader and Chief Executive. The AGS should reflect the governance matters from the relevant financial year, plus up to the date when the accounts are signed.
11. The draft AGS was circulated to Members of this Committee, in May 2018, for review and comment prior to it being approved by the Leader and Chief Executive.
12. Members of the Committee were invited to a further workshop to ask questions and provide feedback.
13. The draft AGS was then issued to the External Auditors to review as part of the draft Statement of Accounts. No further amendments were requested at this stage.
14. The draft AGS was presented to this Committee, and approved, in July 2018. The Committee was advised that further updates may be required, to reflect any changes arising between the report date and the conclusion of the Statement of Accounts.
15. The AGS has now been updated to reflect changes to the governance framework, since it was originally approved in July 2018. Examples include the current progress of the Statement of Accounts, plus any progress at delivering the action plan. In addition, as the Council website has been recently refreshed, a number of hyperlinks required updating to ensure they directed the reader to the correct web-pages. The latest version has been issued to the External Auditors.
16. For ease of reference the appended AGS highlights the updates using tracked changes. Members should approve the revised AGS, containing the tracked changes, appended to this report.
17. The final, and formatted, version of the AGS accompanies the Statement of Accounts.

### **Considerations**

18. Key officers have been consulted in compiling the draft AGS and Local Code of Governance. The AGS was previously issued to Members of the Audit & Corporate Governance Committee, and this version has been updated to reflect the governance framework up to the conclusion of the Statement of Accounts.

### **Implications, risks and opportunities**

19. In the writing of this report, taking into account financial, legal, staffing, risk management, equality and diversity, climate change, community safety and any other key issues, there are no significant implications or risks.
20. The changes to the AGS are not significant, and the content is mostly the same as the document approved in July 2018. Updating the AGS provides an opportunity improve the quality of the document for the reader, reflect the current governance framework, and also be compliant with regulations and professional guidance. Presenting a document with tracked changes helps the Committee to understand what changes have been made.

### **Effect on Strategic Aims**

21. The annual review reflects the Strategic Aims of the Council, and may also inform development of future Strategic Aims where this helps to improve the governance framework.

### **Background documents**

22. Background papers used in the preparation of this report:
  - Delivering Good Governance in Local Government (CIPFA 2016)
  - Accounts and Audit (England) Regulations 2015
  - CIPFA good practice guidance on AGS presentation

### **Report Author:**

Jonathan Tully – Head of Shared Internal Audit

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# Annual Governance Statement

## Introduction and purpose

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for, and that it also provides value for money. It has to effectively manage its risks, and put in place proper arrangements for the governance of its affairs.

## Definition of Corporate Governance

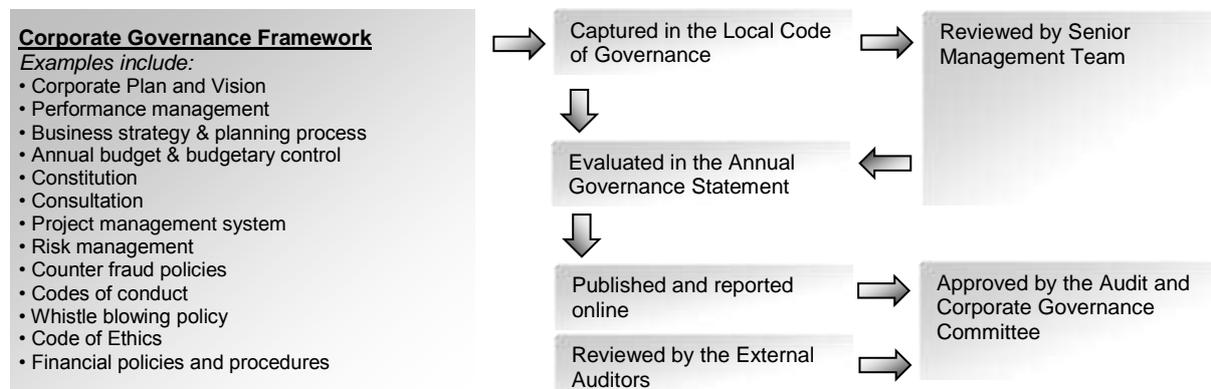
Corporate governance generally refers to the processes by which an organisation is directed, controlled, led and held to account.

Good governance in the public sector means: "*achieving the intended outcomes while acting in the public interest at all times*"

## The Governance Framework

Our governance framework comprises the culture, values, systems and processes by which the Council is directed and controlled. It brings together an underlying set of legislative and regulatory requirements, good practice principles and management processes.

The Council has a robust process for reviewing and updating the governance framework.



The governance framework for the 2017/18 financial year supports the Council aims and objectives, which are published on [our website](#)<sup>1</sup>. The Vision states:

- The best place to live, work and study;
- Impressive and sustainable economic growth; and
- Quality of life in a beautiful and green environment.

The Vision is supported by our [Delivery Plan](#)<sup>2</sup> which sets out specific and measurable actions for the year to come.

<sup>1</sup> <https://www.scams.gov.uk/council-aims-and-objectives>

<sup>2</sup> [https://www.scams.gov.uk/media/11616/final\\_delivery\\_plan\\_adopted\\_by\\_council.pdf](https://www.scams.gov.uk/media/11616/final_delivery_plan_adopted_by_council.pdf)

Performance against the [Corporate Plan](#), is published in the [Performance Page](#) of our website.

The governance framework has been in place at the Council for the year ended 31 March 2018, and up to the date of approval of the statement of accounts.

### **Local Code of Governance**

We are responsible for ensuring that there is a sound system of governance which incorporates the system of internal control.

This Governance Framework is recorded in our [Local Code of Governance](#), which is underpinned by the 7 principles of good governance as set out in the CIPFA / SOLACE publication 'Delivering Good Governance in Local Government Framework 2016'. The principles are:

- A. behaving with integrity and in accordance with our core values
- B. being open and ensuring effective engagement takes place
- C. working together to achieve our intended outcomes
- D. setting goals for economic, social and environmental benefits and reaching them
- E. growing our capacity - including our leadership and the people who work with us
- F. managing risks and performance through robust internal control and strong financial management
- G. Implementing good practice in transparency, reporting and audit – delivering effective accountability

## Role and responsibilities

All of the Council is responsible for developing and complying with its Local Code of Governance. There are a variety of governance structures and some of the key roles include:

Governance structures	Roles and responsibilities
Council	Council agrees the budget and policy framework, such as the Corporate Plan, Medium Term Financial Strategy. Further details are published on our <a href="#">website</a> .
Cabinet	This is the Council's principal decision making body charged with implementing the budget and policy framework agreed by Council. Further details are published on our <a href="#">website</a> .
Executive Management Team	The management team structure includes a strategic Executive Management Team of a Chief Executive and Directors, and is supported by an operational Corporate Management Team. Both teams consider policy formulation and future planning. <u>The Chief Executive, and the Executive Director – Corporate Services, have recently retired<sup>3</sup>. The Council's current Director of Health and Environmental Services will take up the role of Chief Executive on an interim basis until a new Chief Executive is appointed.</u>
Audit and Corporate Governance Committee	<p>The Audit and Corporate Governance Committee also plays a vital role overseeing and promoting good governance, ensuring accountability and reviewing the ways things are done. It provides an assurance role to the Council by examining areas such as audit, risk management, internal control, counter fraud and financial accountability.</p> <p>The Committee exists to challenge the way things are being done, making sure the right processes are in place. It works closely with both Internal Audit and senior management to continually improve the governance, risk and control environment. Meetings details and minutes are <a href="#">published on the website</a>.</p>
Civic Affairs Committee	This committee reviews the Council's Constitution, including proposals for substantive changes for consideration by the Council. It also considers changes to electoral arrangements, setting ethical standards and monitoring the Councils Code of Conduct. Further details are published on our <a href="#">website</a> .
Scrutiny and Overview committee	It monitors the performance of the Leader and Cabinet and scrutinises services and policies throughout the district, whether or not South Cambridgeshire District Council provides them, and makes recommendations for improvement. Further details are published on our <a href="#">website</a> .

<sup>3</sup> <https://www.scams.gov.uk/retirement-of-south-cambridgeshire-district-council-chief-executive/>

## **Purpose of the Annual Governance Statement**

The Council conducts a review of its system of internal control, prepares and publishes an Annual Governance Statement in each financial year.

This enables us to demonstrate whether, and to what extent, the Council complied with its Local Code of Governance.

The Local Code of Governance is updated regularly. This process records our good practice, and also helps us to plan further action which can improve our governance arrangements.

## **Statutory compliance**

Producing the Annual Governance Statement helps the Council meet the requirements of Regulation 6(1)b of the Accounts and Audit (England) Regulations 2015. It is reviewed by the Audit & Corporate Governance Committee and approved in advance of the Statement of Accounts.

The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. That duty has grown in importance with the reduction in resources being made available for Local Authorities as part of the Government's on-going austerity programme.

The Councils financial management arrangements are consistent with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

## Other review and assurance mechanisms

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Management have helped to review the Local Code of Governance, and also inform the Annual Governance Statement. In addition assurance can be provided from other sources, as detailed below:

### Head of Internal Audit Opinion

The Head of Internal Audit provides an independent opinion on the overall adequacy of and effectiveness of the Council's governance, risk and control framework and therefore the extent to which the Council can rely on it. This has been considered in the development of the Annual Governance Statement.

The [Annual Report](#) ~~will be~~was presented to the Audit & Corporate Governance Committee in July 2018. This report ~~will~~outlined the key findings of the audit work undertaken during 2017/18, including any areas of significant weakness in the internal control environment.

From the audit reviews undertaken, no areas were identified where it was considered that, if the risks highlighted materialised, it would have a major impact on the organisation as a whole. In each instance where it has been identified that the control environment was not strong enough, or was not complied with sufficiently to prevent risks to the organisation, Internal Audit has issued recommendations to further improve the system of control and compliance. Where these recommendations are considered to have significant impact on the system of internal control, the implementation of actions is followed-up by Internal Audit and is reported to Audit and Corporate Governance Committee.

It is the opinion of the Head of Internal Audit that, taking into account all available evidence, reasonable assurance may be awarded over the adequacy and effectiveness of the Council's overall internal control environment during the financial year 2017/18, and this remains at a similar level to the previous year.

### External Audit

Ernst & Young (now EY) are the appointed external auditor. Their results report (ISA260), annual audit letter and annual report on the certification of claims and returns was presented to Audit & Corporate Governance committee.

For 2016-17 EY issued unqualified audit opinions on the financial statements, value for money conclusion and whole of government accounts.

## Progress from the last Annual Governance Statement

The Council prepared an [Annual Governance Statement for 2016/17](#) which was approved by the Audit and Corporate Governance Committee.

An update on the previous action plan is included below:

Action	Update and status
Developing a shared Financial Management System	<del>This action is still in progress, and is also included in the new action plan for the Annual Governance Statement 2017/18.</del> <u>The new Financial Management System has now been implemented, and is being used throughout the Council. System and processes have been updated which are leading to improvements in procurement and information management.</u>
Developing effective partnership arrangements with the Combined Authority	Governance arrangements, and partnership relationships, are being established as the Cambridgeshire and Peterborough Combined Authority continues to develop. Progress reports, summarising the work of the Combined Authority, have been presented to Council.
Planning a review of revised procedures for Corporate Governance: Gifts and Hospitality	A review was scheduled for 2018/19, which was approved by the Audit and Corporate Governance committee, and <u>this work is helping to inform the current review of the Constitution by the Constitution Task and Finish Group.</u> <del>is currently in progress.</del>
Developing Shared Service reporting arrangements	Reporting arrangements for Shared Services have been established. Monitoring reports are submitted to the Councils Corporate Management Team and a Shared Service Board as regular practice. Business plans have been approved by Cabinet.

## Review of effectiveness

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The Council has a positive risk appetite and the governance framework is designed to manage risk to an acceptable level. It provides a reasonable level of assurance, as it is not possible to eliminate all risks which may impact the achievement of its vision, policies, aims and objectives.

The effectiveness of the key elements of the governance framework is reviewed throughout the year. The review is informed by the work of senior officers who have responsibility for the development and maintenance of the governance framework, the Head of Internal Audit's annual report, and from comments received from external auditors and other review agencies and inspectorates. In addition both the Corporate Management Team and the Audit and Corporate Governance Committee have participated in workshops to help develop the Annual Governance Statement. This helps us to identify what works well, and also opportunities for improvement.

The Council has a number of policies and procedures which are recorded in its Local Code of Governance. These are mapped to the 7 principles of good governance.

Ongoing good practice is recorded in the [Local Code of Governance](#). Additional examples of good practice from the last twelve months, and governance issues, considered when completing the review are recorded below. The [Performance Page](#) on the Council's website sets out details of how the examples below have contributed to the delivery of quality services and the Council's Corporate Plan objectives.

Principle	Review of effectiveness
A Behave: integrity, ethical values, respect rule of law	<ul style="list-style-type: none"> <li>• We have revised HR policies, such as Dignity at Work.</li> <li>• The VALUES of the Council have been promoted to employees.</li> <li>• Management have provided feedback that the framework of HR Policies supported them to ensure there are high levels of conduct and ethical behaviour, and there are low levels of non-compliance with Policies.</li> </ul>
B Openness & stakeholder engagement	<ul style="list-style-type: none"> <li>• Human Resources “Drop in sessions” were held throughout the year, enabling employees to discuss and understand relevant topics such as job evaluation and health and wellbeing.</li> <li>• A user group was setup with partners to proactively manage complaints with the A14 development.</li> <li>• A Joint Strategic Needs Assessment was used to inform Health and wellbeing priorities.</li> <li>• We started up a “Let’s Talk” engagement, which included workshops and events to inform Corporate Objective setting. Examples included focus groups with a range of stakeholders including LGBT, Religious Groups, and new residents. Further business engagement was developed under the “Let’s Talk Business” programme; feedback informed the development of the 2018/19 Corporate Plan</li> <li>• Manager used “Action learning leadership” to review the equality scheme and make recommendations to the Executive Management Team with the priorities and resourcing.</li> </ul>
C Defining outcomes - economic, social, environmental	<ul style="list-style-type: none"> <li>• Executive Management Team and the Corporate Management Team worked together to help develop a new Corporate Plan with members. <u>A revised Business Plan was developed for 2019-24 to set priorities for our communities and businesses. This included consultation and was published on our website.</u></li> <li>• We delivered a trailblazer project to address homelessness which included a number of external agencies.</li> <li>• We responded to recommendations from a Local Governance Association Peer Review, such as Shared Services Strategic Position Statement, preparing for the creation of a combined authority.</li> <li>• <u>The Council established Shire Homes as an innovative solution to addressing housing need in the district.</u></li> <li>• <u>The Council has agreed to support a transition to “Zero Carbon by 2050 in the next local plan, and are prioritising the elimination of single use plastics within the organisation.</u></li> </ul>

Principle	Review of effectiveness
D Determine interventions to achieve outcomes	<ul style="list-style-type: none"> <li>We updated the project management toolkit to provide guidance on business benefits realisation, and also to share lessons learnt for continued improvement. We ran training for project sponsors to help embed good project management governance.</li> <li>Shared Services governance was developed with regular reports now presented regularly to the Corporate Management Team, and the Shared Services Board. Business plans were approved by Cabinet.</li> </ul>
E Develop capacity and capability of entity	<ul style="list-style-type: none"> <li>We completed a review of the key documents including our Learning &amp; Development Policy, a new management competency framework, adopted an apprenticeship strategy, and continued training and development for employees.</li> <li>Development of shared services is helping the Council to build resilience and develop expertise.</li> </ul>
F Manage risk & performance, internal control, finance	<ul style="list-style-type: none"> <li>The Council <del>has</del> <u>is implementing</u> a new Financial Management System, to develop resilience and introduce smarter ways of working. <del>Further work will be undertaken in 2018/19.</del></li> <li><u>A Quality Assurance and Improvement Programme, of compliance to the Public Sector Internal Audit Standards, was completed as good practice.</u></li> <li><u>External audits were completed on group accounts, which provided assurance, and this is being supplemented by a risk based program of internal audit work.</u></li> <li><u>An internal audit review of the Risk Management framework was completed. This provided reasonable assurance, concluding that the Council is risk enabled and that risk management and internal controls are embedded. The Strategic Risk Register is being reviewed to align to the priorities of the new Business Plan.</u></li> </ul>
G Transparency, reporting, audit, accountability	<ul style="list-style-type: none"> <li>The revised Corporate Plan was designed to be more accessible and easier to read.</li> <li>The Council received an unqualified opinion on the statement of accounts <u>for 2016/17. The accounts were approved in January 2018, which was later than planned, as final adjustments were completed and the valuation of the housing stock was reviewed. There has also been a delay to the 2017/18 accounts, and both the Council and the External Auditors are working to conclude these as promptly as possible. This has been recognised and included in our AGS improvement plan.</u></li> <li>The website has been refreshed to make information more accessible to customers and there has been an increase in the use of e-forms.</li> </ul>

## Opportunities for Improvement

The arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

The review process has helped us to identify some opportunities to improve the governance arrangements over the next twelve months. Some of these may feature in previous statements where the work is ongoing. They address both significant governance issues that have arisen during 2017/18, and also forward looking matters identified for 2018/19. These actions are captured in existing corporate plans and strategies.

Subject	Opportunity	Responsible Officer
Review of the Constitution	The Council's Constitution has not been subject to a comprehensive review for some considerable time. The <a href="#">Civic Affairs Committee</a> has agreed to establish a Task and Finish group to undertake a comprehensive review of the Council's Constitution, including its codes and protocols, such as Committee terms of reference, and financial and procurement authorisation levels. <del>The aim is for a report, with recommendations, to be considered by next year's Annual Council meeting. The Task and Finish Group has drawn up a work programme which envisages recommendations being submitted to this Committee in the summer, with the aim of seeking Council approval for the revised Constitution in the autumn.</del>	Deputy Monitoring Officer
Digital strategy	Recognising that it can be difficult to engage with customers and stakeholders, the Council is developing a digital strategy to help customers self-serve, whilst preserving appropriate channels for those that require them. Examples include "In Touch Project" to improve digital inclusion with Housing tenants and reviewing our "Community Engagement Strategy".	Executive Director – Corporate Services and Head of People and Organisational Development

Subject	Opportunity	Responsible Officer
Statement of Accounts	<p>The Council completes Statement of Accounts, to report the financial position of the Council, and for 16/17 these were not approved by the deadline. An earlier timetable for completion was established as part of the Accounts and Audit regulations 2015. The Council set a robust timetable for completion of the 17/18 accounts, and published a draft version on the <a href="#">Council's website</a> for consultation. Both the Council and the <del>will work with the</del> externally appointed auditors <u>have worked together</u> to conclude these <u>as promptly as possible</u>. <u>It was not possible to meet the deadline, and updates have been regularly communicated to the Audit &amp; Corporate Governance Committee. The Council has planned to undertake a 'lessons learnt' and risk appraisal to improve the completion process of the 18/19 accounts. The Council has recruited a Principal Accountant, plus a Deputy Head of Finance, and these substantive resources will help manage the process. In addition the Council will use closedown procedures for their new Financial Management System. The system is shared with partner Councils, and one of the partners has already used the procedures successfully to complete a Statement of Accounts within the target timescale.</u></p>	Executive Director – Corporate Services and S151 Officer
Review of anti-fraud and corruption policies	<p>The Council completes a continuous review of its counter fraud arrangements based on good practice. Policies will be reviewed to see if any improvements can be adopted.</p>	Head of Internal Audit
Financial Management System	<p>The Council is implementing a new Financial Management System, to develop resilience and introduce smarter ways of working. <del>The project timescale has been extended and further work will be undertaken in 2018/19. A new internal project team has been appointed to help deliver implementation to a revised go-live date. The core system was successfully implemented and is now being used throughout the Council. The Budgeting and Forecasting module is being developed further, with the suppliers, for implementation throughout 2018/19.</del></p>	Executive Director – Corporate Services & Head of Finance

Subject	Opportunity	Responsible Officer
<u>Control Account Reconciliations</u>	<u>The Council reconciles control accounts to ensure that systems balance. These were not always completed promptly, throughout the year. The Finance team ensured these were completed for the system launch of the new Financial Management System, as data was migrated. Management now have processes in place for monitoring reconciliations. Internal processes will also be reviewed to consider opportunities to simplify the reconciliation process and assist prompt completion.</u>	<u>Executive Director – Corporate Services &amp; Head of Finance</u>
Organisational Development Strategy	The Council will complete a review of the Organisational Development Strategy, over the current financial year, which will help to improve recruitment and retention of employees.	Head of People and Organisational Development
Complaints management	The Council has a process for responding to complaints. A project is being implemented to help improve our quality and timeliness of complaints handling.	Head of People and Organisational Development
Environment	Local Air Quality Management is a statutory obligation for all Local Authorities. It involves a rolling programme of air quality assessment, impacting on decisions made by all internal and external bodies responsible for transport planning, highways, growth agendas, development plans and environmental protection. The Council is developing a new <a href="#">Air Quality Strategy</a> , which will help to enhance the environment and inform environmental planning.	Head of Service, Environmental Commissioning
Risk management review	The Council has completed a review of the risk management framework and is currently refreshing its Strategic Risk Register. This will help ensure risk identification is aligned to the <u>new BusinessCorporate</u> Plan, and resources for further mitigation are effectively allocated.	Executive Director – Corporate Services & Risk Management Group

## Conclusion

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The Council has in place strong governance arrangements which we are confident protect its interests and provide necessary assurances to our citizens and stakeholders.

We are satisfied that the planned actions will improve our governance arrangements, identified from our review of effectiveness. We will monitor their implementation and operation throughout the year and report their progress as part of our next annual review.

Signed:

Signed:

.....  
Councillor Bridget Smith  
Leader of the Council

.....  
Mike Hill  
Chief Executive

Date:

Date:

.....

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# South Cambridgeshire District Council Audit Progress Report

For the audit of the accounts - year ended 31 March 2018

15 March 2019

15 March 2019



Dear Audit & Governance Committee Members

We attach an Audit Progress Report for the forthcoming meeting of the Committee providing an update on the status of the audit of South Cambridgeshire District Council (the Authority) for 2017/18.

The audit remains in progress.

We have reported to the Committee throughout 2018 our concerns around the Authority's ability to prepare its 2017/18 accounts and its readiness for the audit. Following discussion with the Authority we agreed to recommence the audit of the accounts in late November, deploying an experienced audit team, aiming to complete the audit in advance of the December Committee meeting. However, we were unable to progress the audit sufficiently due to several aspects of the Authority's accounts and its supporting working papers generating several audit queries and challenges that were taking up more time than planned. We have discussed and agreed this position with the interim Section 151 officer.

We will provide a verbal update of the audit at the 26 March committee meeting including an outline of the timeline we have agreed with officers to aim to complete the audit and issue the auditor's report.

This report is intended solely for the use of the Audit & Governance Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We welcome the opportunity to discuss the contents of this report with you at the Committee meeting on 26 March 2019.

Yours faithfully

Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

# Contents

## 01 Executive Summary



## 02 Status of the Audit



## 03 Fees



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website ([www.PSAA.co.uk](http://www.PSAA.co.uk)). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

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

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



01

# Executive Summary

# Executive Summary

## Status of the audit

As at the date of this report our audit remains in progress. We do not expect to be in a position to issue the auditor's report until the end of April at the earliest. We include in Section 2 details of the status of the audit. In summary:

- We have deliberately tried not to over burden finance officers whilst at the same time aimed at progressing the audit quickly and effectively. However, at times we recognise that the volume of audit queries has been a challenge for finance officers to deal with.
- We have made good progress in auditing some aspects of the Authority's statements including the HRA, Investments, Borrowings, Pension Liability and Pensions disclosures.
- In other areas such as Property, Plant and Equipment (PPE), Movement in Reserves Statement (MIRS), Collection Fund, Debtors and Creditors, progress has been much slower than anticipated due to issues with supporting working papers and the time taken to obtain explanations from officers in support of judgements made.
- We have completed our value for money conclusion work and we are now considering the implications of the Authority's inability for the past three years to deliver timely and reliable financial reporting.

We are also considering the other powers and responsibilities of appointed auditors under the Local Audit and Accountability Act 2014.

With the audit stretching into our 2018/19 audit time phase this does present us with resourcing challenges and in particular securing continuity in the members of the audit team. We are currently liaising with our resource coordinators but expect to have to introduce new auditors to the team in order to complete the audit in April. We will provide the Committee with verbal update of the planned timetable for concluding the audit.

## Control observations

We have previously reported to the Committee that we had identified that during part of the year, key control account reconciliations, including the bank reconciliation were not being routinely conducted. We are still in the process of following up the completion of the year end reconciliations and will report the detail in the Final Audit Results Report.

We have adopted a fully substantive approach, so have not tested the operation of controls.

## Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Plan we did not identify a significant VFM risks. We have considered carefully whether the Authority's financial reporting problems impact on its arrangements for making informed decisions or deploying resources in a sustainable way. In light of the ongoing audit, the record of the past two years late financial reporting and interim arrangements for the roles of Section 151 officer and Chief Executive officer we are considering the implications on the value for money conclusion.

We will discuss our considerations with the Interim Section 151 Officer and Interim Chief Executive as we approach the end of the audit.

## Executive Summary

### Other powers and responsibilities

This is the third year that the Authority has failed to publish audited accounts by the date set by regulations. It is also the third year that the Authority has failed to address audit findings in respect of strengthening its ability to prepare timely and materially accurate accounts as well as respond to audit requirements effectively.

In light of this we are currently considering whether we need to exercise any other audit powers and responsibilities. We will discuss our considerations with the Interim Section 151 Officer and Interim Chief Executive as we approach the end of the audit.

### Other reporting issues

We have reviewed the information presented in the draft Annual Governance Statement for consistency with our knowledge of the Authority. We have reinforced our view that the Statement needs to reflect the deficiencies in control account reconciliations, accounts preparation arrangements, and some other minor issues. We have received the amended version on 13 March 2019, and have made two further suggested amendments which officers have agreed to make.

This is the third year that the Authority has been unable to publish audited accounts by the deadline. As we have previously reported, whilst officers have worked hard to prepare the accounts, supporting working papers and deal with the audit, there remains a need for the Authority to strengthen its arrangements to close down its financial ledger, produce materially correct draft financial statements and support those financial statements with adequate working papers. We recognise that the Audit & Governance Committee have raised their concerns with management over these matters. We recommend that the Audit & Governance Committee seek assurances from management on the effectiveness of arrangements being put in place to ensure the Authority will be able to prepare materially accurate and complete draft accounts for 2018/19 and prepare comprehensive and good quality supporting working papers.

### Fees

Throughout the 2018 we have communicated to management and the Committee the impact of the Authority's financial reporting deficiencies on the time we have been required to input to the audit and the audit fee. As the audit remains ongoing we are unable to provide a final proposed additional fee but include in Section 3 a range that we consider to be realistic. On conclusion of the audit we will discuss and agree the proposed additional audit fee with the Interim Section 151 Officer before seeking approval from PSAA.



# 02 Status of the audit



## Status of the audit

# Summary of our status updates to the Committee

We summarise our reporting to the Committee during the year to help inform the current status of the audit.

 Date	 What we reported to the Committee	 What was the impact we reported
April 2018	<ul style="list-style-type: none"> <li>▶ Ongoing review of the Authority's financial statements closedown timetable and action plan, providing regular feedback on challenges</li> <li>▶ Good progress being made in completing our scope and strategy work</li> <li>▶ Absence of regular control account reconciliations, including the bank account</li> <li>▶ Our inability to commence:               <ul style="list-style-type: none"> <li>▶ A walk through the Authority's controls around PPE due to the planned move to a new asset register</li> <li>▶ Review of opening balances, I&amp;E testing and journals testing due to issues with the mapping of data</li> </ul> </li> </ul>	Increased audit procedures required to be undertaken at the year end rather than early substantive testing during the interim part of the audit.
July 2018	<ul style="list-style-type: none"> <li>▶ The Authority did not publish draft accounts by the 31 May deadline</li> <li>▶ The 7 June published draft accounts appeared to be missing key disclosures and was not subject to a quality assurance review by management</li> <li>▶ We raised queries on the disclosures relating to PPE</li> <li>▶ The Authority postponed the move to a new asset register</li> <li>▶ We continued to experience problems with mapping analytics data due to the Authority's unresolved issues with the accounts, working papers and the TB</li> </ul>	We deferred the start of the year end audit until early August (with a second part of the audit planned for September) to provide the Authority with sufficient time and capacity to resolve the matters identified.
September 2018	<ul style="list-style-type: none"> <li>▶ There remained unresolved issues with the TB, the completeness of the accounts and supporting working papers and PPE</li> <li>▶ The Authority was working on responding to a list of audit queries</li> <li>▶ We continued to experience problems with analytics</li> <li>▶ We were awaiting the Authority's assurances that the issues generating the audit differences we reported in 2016/17 had been resolved for 2017/18</li> </ul>	Further deferral of the audit.

## Status of the audit

# Summary of our status updates to the Committee

We summarise our reporting to the Committee during the year to help inform the current status of the audit.

 Date	 What we reported to the Committee	 What was the impact we reported
November 2018	<ul style="list-style-type: none"> <li>▶ We progressed some areas of the audit work including HRA, Investments, Borrowing, Pensions and some elements of PPE.</li> <li>▶ The Authority continued working on responding to our audit queries.</li> <li>▶ Working papers for several areas were returned to the finance team including the Collection Fund, Debtors, Creditors, NDR appeals provisions and some elements of PPE</li> <li>▶ We were awaiting the Authority's assurances that the issues generating the audit differences we reported in 2016/17 had been resolved for 2017/18</li> </ul>	Further deferral of the audit.
March 2019	<ul style="list-style-type: none"> <li>▶ Work on the outstanding areas has been progressing, particularly on the remaining areas of PPE</li> <li>▶ Internal audit have carried out their own review of the accounts against the CIPFA disclosure checklist, the output of which has been reviewed by the s151 officer and further amendments to disclosures have been identified.</li> <li>▶ We have now received amended working papers on the Collection Fund, Debtors and Creditors and will work through these as soon as possible.</li> <li>▶ We are still waiting for assurances that the issues generating the audit differences we reported in 2016/17 have been resolved for 2017/18.</li> <li>▶ Related Parties Transactions note in the accounts - the declaration of interest returns for most of the members who were in office for 2017/18 have been destroyed by the Council. Therefore we need to carry out further audit procedures, including Companies House checks, to address the completeness of this note.</li> </ul>	Further deferral of the audit.

## Status of the audit

We summarise the status of our audit procedures to help inform the Committee of progress and findings to date.

Completed - no issues	
Disclosures	Officers remuneration
Balance Sheet	PPE - existence testing
Balance Sheet	PPE - Depreciation
Balance Sheet	PPE (other assets - not L&B)
Balance Sheet	Pension scheme liabilities
Balance Sheet	Investments
Balance Sheet	Borrowings
CIES	Council Tax income in the CIES
CIES	Expenditure - REFCUS
CIES	Re-measurement of Defined Pension Scheme Liabilities
Housing Revenue Account (HRA)	HRA - Income
HRA	HRA - Expenditure & Notes
VFM	Value for Money Conclusion work
Other procedures	Litigation and claims
Other procedures	Going concern
Other procedures	Minutes reviewed (up to Feb)
Other procedures	Read significant contracts

Completed - issues identified		
Balance Sheet	PPE - Agree Fixed Asset Register (FAR) to Trial Balance & Accounts	<ul style="list-style-type: none"> <li>Deferred Capital Receipts have been included in the PPE note (but not FAR) incorrectly, therefore this line should be removed.</li> <li>Other Land &amp; Buildings depreciation written out of POS did not agree with the amount as per the FAR, should be £538k.</li> </ul>
Balance Sheet	PPE Other assets - additions and disposals testing	<ul style="list-style-type: none"> <li>£388k to be transferred to intangible assets</li> </ul>
Balance Sheet	Cash and Bank	<ul style="list-style-type: none"> <li>Issue raised re £258k cancelled cheque that's been adjusted twice.</li> </ul>
CIES	Grant income	<ul style="list-style-type: none"> <li>£1,451k of Business Rate growth needs to be included in note 8a taxation and non-specific grants from the collection fund, in order for the note to agree back to the CIES balance of £6,200k.</li> <li>£5,079k from Shared Waste and Recycling credits will need to be removed from Other Government Grants -as these are normal services provided by the council rather than government grants and contributions. Additionally, the EFA note will also need amending to remove £5,079k from the grants balance of £33,308k and include in fees, charges and other service income.</li> </ul>

## Status of the audit

We summarise the status of our audit procedures to help inform the Committee of progress and findings to date.

Completed - issues identified (cont.)		
CIES	Expenditure - Housing Benefit expenditure	<ul style="list-style-type: none"> <li>Incorrect grossing up of HB expenditure and overpayments income by £535k. No effect on bottom line.</li> </ul>
CFS	Cash Flow Statement	<ul style="list-style-type: none"> <li>The 2016/17 £9,081k disclosure relating to Financing activities of the face of the statement requires additional disclosure. In the 2017/18 column there is an unexplained figure of -£194k in the adjustments for non-cash movements. We are awaiting an explanation of the figure.</li> </ul>
EFA	Expenditure Funding Analysis	<ul style="list-style-type: none"> <li>Amendments required to some of the headings (and in the CIES) to align with internal reporting.</li> </ul>
Disclosures	Annual Governance Statement	<ul style="list-style-type: none"> <li>Changes agreed with Internal Audit and the s151 officer; to provide more narrative on:               <ul style="list-style-type: none"> <li>the weaknesses in the accounts preparation process</li> <li>the new ledger (2018/19)</li> <li>changes in senior management</li> </ul> </li> </ul> <p>Amended version received 13 March.</p>
Disclosures	Exit packages	<ul style="list-style-type: none"> <li>We have received 2 outstanding payslips. Adjustments to be made in current year note as well as prior year column due to inclusion of individuals in the wrong year/wrong band.</li> </ul>
Disclosures	'All other disclosures' not separately identified	<ul style="list-style-type: none"> <li>Audit costs disclosure, note 23, - agreed amendment of £100k completed.</li> </ul>
Other procedures	Agree or reconcile the financial information to the underlying accounting records	<ul style="list-style-type: none"> <li>Several issues raised with finance team for consideration.</li> </ul>
Other procedures	Related parties	<ul style="list-style-type: none"> <li>Declarations not available for most of the members who left in May 2018 as they were destroyed. We need to carry out further audit procedures, including Companies House checks, to address the completeness of this note.</li> </ul>
Other procedures	New Revenue recognition standard	<ul style="list-style-type: none"> <li>No formal assessment by SCDC. Amended accounts will include a disclosure re 'standards not adopted'.</li> </ul>

## Status of the audit

We summarise the status of our audit procedures to help inform the Committee of progress and findings to date.

In progress		
Balance Sheet	PPE Land & Buildings - additions and disposals testing	Additions - we have now received the sample back (54) w/c 4 March - now to work through. Disposals - sample is out with finance team, we are waiting for return.
Balance Sheet	PPE Land & Buildings - Valuations	HRA sample of 30 selected - still to test. Non-HRA: Queries raised with finance team in regards to entries made to FAR. Not as expected. Other L&B - sample of 10 has been selected and has been passed to finance team to request the evidence from the valuer. FAR entry query above may also impact on HRA testing.
Balance Sheet	PPE Land & Buildings - all other tasks: impairments, componentisation, gains/losses	Started work on impairments - queries back to finance team. Gains/losses WPs returned as they were for 16-17. Not started componentisation test yet. However, much of this testing depends on the outcome of the valuations and disposals testing, and will not take long once they are concluded.
Balance Sheet	PPE - Assets held for Sale	Request sent to ask officers to review the assets to ensure that classified correctly as HFS - queries remaining.
Balance Sheet	Debtors	Balance sheet and note did not agree, and was passed back to finance team. New debtors working papers with new note analysis now returned to us on Friday 8 Mar - we are looking at this week to determine which populations are affected and which we have tested or are still to test. Agreement of debtors subledger to GL is complete with no issues. We have tested manual debtors but we are in the process of reviewing responses and have raised subsequent queries as evidence was incorrect. Cut-off testing sample selected and we have information back; we need to review and write up. We have identified £3.562m of NDR growth money that was accrued in 2016/17 accounts, and was reversed for 2017/18, but the monies were not received until 2018/19, so it needs to be added back into debtors for 2017/18.

## Status of the audit

We summarise the status of our audit procedures to help inform the Committee of progress and findings to date.

In progress (cont.)		
Balance Sheet	Debtors - Collection Fund debtors	Work in progress along with Collection Fund work (see below).
Balance Sheet	Creditors	Similar position to debtors re the balance sheet and note not agreeing, and we have had new working papers returned on 8 March, so we can now identify populations and determine what to test. Unrecorded liabilities testing is complete.
Balance Sheet	Reserves - Capital Adjustment Account and Revaluation Reserve	Working through CAA/RR as part of the work on the MIRS, as presentation not in line with Code. Revaluation reserve in the Accounts does not agree to the GL by £291k. This is being progressed as part of our PPE work and work on the Capital Enhancement & Capital Financing Note.
Balance Sheet	Reserves - HRA	Work has started on this but waiting for results of the HRA PPE work to be concluded.
Balance Sheet	Provisions - including NDR appeal	Work on NDR appeals provisions started and queries returned to finance team.
CIES	Income	Most income tests are complete apart from the sample testing. Analytical review is complete. All samples have been returned, many queries, we are currently still assessing the status of this work.
CIES	Expenditure - payroll	In progress, but only minimal amount to complete.
CIES	Expenditure - other expenditure	Most expenditure tests are complete apart from the sample testing. Analytical review is complete. All samples returned, many queries, we are currently still assessing the status of this work.
CIES	NDR Income and Expenditure in the CIES	Nearing completion, but has been held up by Collection Fund work (see below)

## Status of the audit

We summarise the status of our audit procedures to help inform the Committee of progress and findings to date.

In progress (cont.)		
MIRS	Movement in Reserves Statement	Still working on agreeing everything back, as presentation not in line with Code. We have agreed PY figures in the new presentation.
MIRS	Capital Financing Requirement and Minimum Revenue Provision	Awaiting response from finance team regarding amendment required to CFR disclosure. Funding basis - to write up work to link to other parts of the accounts.
MIRS	Adjustment between accounting and funding basis	Still working on agreeing everything back, as presentation not in line with Code.
Page 36 Collection Fund	All parts	We have had significant issues with the Collection Fund presentation and working papers. It was returned to the finance team as the working papers were not correct or complete. The finance team have been working on these. We were able to complete work on Council Tax Analytical review, and the NDR Analytical review is nearly complete. There are still many queries outstanding before we can proceed with the CF audit, but on 13 March we have received the new CF presentation and working papers, and plan to recommence this work ASAP.
Other procedures	Journal testing	Work continuing
Other procedures	Estimates	Largely complete but dependant on outcome of other testing before we can conclude.
Other procedures	Procedures related to specialists	Largely complete but dependant on outcome of other testing before we can conclude.
Other procedures	Subsequent events	Substantially complete but we will need to revisit at the date of giving the opinion.
Other procedures	Overall Analytical Review	To complete write up now responses received.

## Status of the audit

We summarise the status of our audit procedures to help inform the Committee of progress and findings to date.

### In progress (cont.)

Other procedures	Consideration of the Issues Identified in the 2016/17 Statement of Accounts	Some areas still awaiting responses from officers
Other procedures	Follow-up of control account recs	Being updated, will conclude when debtors and creditors work finished.
Other procedures	Evaluate comparative and additional information in the financial statements	Still working through the PY figures, especially for the new notes
Other procedures	CIPFA disclosure checklist	Internal audit have carried out their own review of the accounts against the CIPFA disclosure checklist, the output of which has been reviewed by the s151 officer and further amendments to disclosures have been identified, to be made along with all other identified audit adjustments.
Other procedures	Read other information to identify inconsistencies (Narrative Statement)	Checking outturn figures to accounts and reports
Other procedures	Identify and understand the business rationale for significant unusual transactions	Procedures completed but we are waiting for the results of the journals testing should that identify any unusual transactions.

### Not started

Disclosures	Financial Instruments	To be completed following debtors/creditors work.
Balance Sheet	Reserves - General Fund, Earmarked and Collection Fund	Not started as prioritising other tasks first.
CIES	Finance & Investment - Interest and pensions costs	Not started as prioritising other tasks first.
CIES	Revaluation gains / losses	Will be looked at once PPE disposals work is complete.
Group Accounts	Group Statements and Notes	Statements incomplete - finance team aware. Cannot be prepared until amendments to main accounts have been processed.



3

Fees

# Fees

## Fee analysis

We have communicated throughout the year the impact of the Authority's issues in financial reporting on the audit fee. We set out below a summary of the current proposed fees for the year ended 31 March 2018 with comparisons of the previous two years. As the audit remains ongoing we are unable to confirm the final proposed additional fees for the additional work we have undertaken but provide a range for the Committee and management. On completion of the audit we will seek to agree the final additional fee with the Section 151 officer before seeking approval from PSAA.

We confirm we have undertaken non-audit work outside the PSAA Code requirements in relation to our work on the Pooling of Housing Capital Receipts Return. We have adopted the necessary safeguards in our completion of this work.

Non-audit work is work not carried out under the Code. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO in Month Year.

	Proposed fee 2017/18	Planned fee 2017/18	2016/17	2015/16
	£	£	£	£
Scale fee	51,975	51,975	51,975	51,975
Group reporting	5,000	5,000	3,940	-
Accounts issues	60,000 - 80,000	-	29,616	20,644
<b>Total audit fee - code work</b>	<b>116,975-136,975</b>	<b>56,975</b>	<b>85,531</b>	<b>72,619</b>
Other non-audit services not covered above (Housing Benefits)	10,870	9,190	13,793	9,190
Other non-audit services not covered above (pooling return)	3,700	3,700	3,500	3,300
<b>Total other non-audit services</b>	<b>14,570</b>	<b>12,890</b>	<b>21,500</b>	<b>12,490</b>
<b>Total fees</b>	<b>131,545-151,545</b>	<b>69,865</b>	<b>107,031</b>	<b>85,109</b>

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ED None

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# Agenda Item 6



**REPORT TO:** Audit and Corporate Governance Committee

26 March 2019

**LEAD OFFICER:** Bob Palmer, Interim Executive Director of Corporate Services

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## **ANNUAL TREASURY MANAGEMENT (OUTTURN) REPORT 2017/18**

### **1. Executive Summary**

1.1 The Council is required by regulations issued under the Local Government Act 2003, to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for each financial year. The Audit and Corporate Governance Committee has the delegated authority to undertake the annual review of treasury management activities for 2017/18.

1.2 This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) in respect of 2017/18. Both publications have been revised by CIPFA and references to these documents are specifically to the 2017 Editions.

1.3 During 2017/18 the minimum requirements were that Audit and Corporate Governance Committee or Council should receive: -

- An annual strategy in advance of the year (the Council);
- An annual review following the end of the year describing the activity compared to the strategy (this report to Audit and Corporate Governance Committee)

Additionally, quarterly treasury update reports are to be made to the Finance and Staffing Portfolio Holder, in line with the Borrowing and Investment Strategy approved by Council on 23 February 2017.

1.4 In line with the above Code of Practice, as amended by the Borrowing and Investment Strategy, all treasury management reports have been presented to Audit and

Corporate Governance Committee and/or to full Council and to the Finance and Staffing Portfolio Holder, as appropriate.

## **2. Recommendations:**

- 2.1 It is recommended that the Audit and Corporate Governance Committee note the good performance of the treasury management function, which includes the Council's actual Prudential and Treasury Indicators for 2017/18.

## **3. Background**

- 3.1 This report summarises:

- Capital expenditure and financing activity during the year;
- The impact of capital spending on the Council's 'need to borrow';
- The Council's compliance with prudential & treasury indicators;
- Treasury Management Position as at 31st March 2018 (Appendix A);
- The Council's Treasury Management advisors (Link Asset Services Ltd) view on UK Interest & Investment rates (Appendix B);
- The actual prudential and treasury indicators (Appendix C);
- Counterparty List (Appendix D); and;
- A Glossary of Terms and Abbreviations (Appendix E)

- 3.2 The Council's Capital Expenditure and Financing 2017/18

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, developer contributions, revenue contributions, reserves etc.), which has no resultant impact on the Council's borrowing need; or;
- If insufficient financing is available, or a decision is taken not to apply other resources, the funding of capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

**Table 1**

	2016/17	2017/18	2017/18	2017/18
	£'000	£'000	£'000	£'000
	Actual	Original Budget *	Revised Budget **	Actual***
General Fund capital expenditure	3,199	5,959	5,959	4,436
HRA capital expenditure	14,739	17,845	18,550	16,972
3rd Party Loans - Ermine St Housing	15,653	30,000	22,921	19,853
<b>Total capital expenditure</b>	<b>33,591</b>	<b>53,804</b>	<b>47,430</b>	<b>41,261</b>
<b>Financed by:</b>				
Capital Receipts	-3,751	-7,540	-7,340	-1,417
Housing & Planning Delivery Grant		-85		
Other Grants and Contributions	-738	-1,141	-1,141	-5,838
HRA Depreciation Reserve	-6,606	-9,758	-9,738	-6,260
Reserves		-129	-339	
Housing Revenue Account (Revenue Contribution)	-6,360	-2,207	-3,007	-6,010
General Fund (Revenue Contribution)		-270	-270	-522
<b>Total available resources for financing capital expenditure</b>	<b>-17,455</b>	<b>-21,130</b>	<b>-21,835</b>	<b>-20,047</b>
<b>Un-financed capital expenditure</b>	<b>16,136</b>	<b>32,674</b>	<b>25,595</b>	<b>21,214</b>

\* *Per Budget Setting Report (BSR) agreed by Council on 23<sup>rd</sup> February 2017*

\*\* *Per Budget Setting Report (BSR) agreed by Council on 22<sup>nd</sup> February 2018*

\*\*\**Per Statement of Accounts 2017/18*

### 3.3 The Council's overall borrowing need

During 2017/18, there was no requirement for external borrowing. Un-financed capital expenditure of £21.214m shown in the above table was met from internal cash borrowing. This is inclusive of additional loans to the value of £19.853m made to South Cambs Ltd (trading as Ermine Street Housing), from cash balances. These loans are recognised as capital expenditure in the year increasing the Council's underlying need to borrow (the Capital Financing Requirement).

**Table 2**

	<b>Actual</b>	<b>Original</b>	<b>Actual</b>
	<b>2016/17</b>	<b>2017/18</b>	<b>2017/18</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Capital Financing Requirement (CFR) as at 1<sup>st</sup> April</b>			
- General Fund	5,182	20,938	20,938
- HRA	204,429	204,429	204,429
<b>Total</b>	<b>209,611</b>	<b>225,367</b>	<b>225,367</b>
<b>Change in the CFR</b>	16,135	22,921	21,214
<b>Minimum Revenue Provision</b>	-379	-450	-472
<b>Capital Financing Requirement (CFR) as at 31 March</b>	<b>225,367</b>	<b>247,838</b>	<b>246,109</b>

### 3.4 Current Debt as at 31<sup>st</sup> March 2018

The table below shows the Council's current outstanding debt and headroom (the amount of additional borrowing that is possible without breaching the Authorised Borrowing Limit):-

**Table 3**

	<b>Principal (£'000)</b>
Authorised Borrowing Limit (A)	<b>249,100</b>
Operational Boundary (B)	<b>249,100</b>
HRA Debt Cap/Limit (C)	<b>205,123</b>
PWLB Borrowing (for HRA Self-Financing, D)	<b>205,123</b>
General Fund Headroom (A minus D)	<b>43,977</b>
HRA Headroom (C minus D)	<b>Nil</b>
Total Current Headroom (A minus D)	<b>43,977</b>

At present the only debt held by the authority relates to the forty one loans from the PWLB for the self-financing of the HRA.

### 3.5 Treasury Position as at 31 March 2018

The Council's debt and deposit position is managed to ensure adequate liquidity for revenue and capital activities, security for deposits and to manage risk in relation to all treasury management activities. Procedures and controls to achieve these

objectives are well established both through the application of approved Treasury Management Practices and regular reporting to Members.

All funds are internally managed.

The table below provides a summary of the Council's debt and deposit outturn for 2017/18 compared to 2016/17.

**Table 4**

	<b>Borrowing and Investment Strategy Forecast February 2017 (as agreed by Council)*</b>	<b>Actual as at 31 March 2018</b>		<b>Actual as at 31 March 2017</b>	
		<b>£m</b>	<b>£m</b>	<b>Rate %</b>	<b>£m</b>
<b>Long Term Borrowing</b>					
PWLB	249.1	205.1	3.51%	<b>205.1</b>	3.51%
Market Loans	0.0	0.0		<b>0.0</b>	
<b>Total Long Term</b>	<b>249.1</b>	<b>205.1</b>	<b>3.51%</b>	<b>205.1</b>	<b>3.51%</b>
<b>Short Term Borrowing</b>	0.0	0.0		0.0	
<b>Total borrowing</b>	<b>249.1</b>	<b>205.1</b>	<b>3.51%</b>	<b>205.1</b>	<b>3.51%</b>
<b>Investments:</b>					
Ermine Street - South Cambs Ltd	(35.5)	(35.5)	3.73%	(24.7)	3.65%
Other Investments	(31.0)	(46.0)	0.81%	(50.9)	0.43%
<b>Total Investments</b>	<b>(66.5)</b>	<b>(81.5)</b>		<b>(75.6)</b>	
<b>Total Net Debt / Borrowing</b>	<b>182.6</b>	<b>123.6</b>		<b>129.5</b>	

\* *Borrowing & Investment Strategy 2017/18 re: Budget Setting Report (BSR) agreed by Council on 23<sup>rd</sup> February 2017*

- 3.6 Investments of £81.5m were held by the Council at 31 March 2018 and included £35.506m to South Cambs Limited with a range of maturities up to 2021. A Public Works Loans Board (PWLB) loan to support lending to the company had previously been proposed for October 2016; but sufficient cash flow balances and an increase in the approved counterparty investment limits enabled the Council to continue with investments.
- 3.7 Investments achieved an in-year return of £1.446m; £0.316m more than original estimated amount of £1.130m. This was due in part to the higher rate of interest charged on investments with South Cambs Limited. Interest of £1.014m being received from South Cambs Limited and £0.432m from other fixed term deposit and money market funds.
- 3.8 The results for 2017/18 show that South Cambridgeshire investment in Ermine Street Housing Ltd achieved a return of 3.73% on average investments during the year compared to 3.65% in 2016/17.

- 3.9 Money market funds achieved an average return during the year of 0.27% a decline on the previous year. Sums held in money market funds are essentially overnight deposits to facilitate short term cash flow requirements.
- 3.10 The performance target is a greater return than average over a five-year rolling period. Over the five-year period the target has been met. In 2017/18 our WARoR (Weighted Average Rate of Return) excluding loans to Ermine Street Housing was 0.81%. This compares favourably to our Benchmarking peers whom achieved 0.69% and other non-metropolitan districts that achieved 0.63%.
- 3.11 A summary of deposits is shown at Appendix A.

#### **4. Interest Rate Update**

- 4.1 Link Asset Services is the Council's independent treasury advisor. In support of effective forecasting the Council needs to be aware of the potential influence of market interest and investment rates. Link's opinion is presented at Appendix B and provides an overview as at 31<sup>st</sup> March 2018.
- 4.2 The Bank of England's May 2018 Inflation Report gives additional information on growth, inflation and interest rates. The Bank of England's Monetary Policy Committee (MPC) noted that the outlook for growth remains reasonably solid. No changes to interest rates (0.50%, with 7 to 2 majority) or quantitative easing (£435bn) were made. Noticeable increases in employment were observed.
- 4.3 Growth did moderate, though, to around 1% during Qtr. 1 of 2018. The MPC sets monetary policy to meet the 2% inflation target, which helps to sustain growth and employment. However, CPI Inflation has risen above this target as the depreciation of sterling has begun to feed through to consumer prices.

#### **5. Prudential and Treasury Indicators**

- 5.1 During the financial year the Council operated within the 'authorised' and 'operational' borrowing limits contained within the Prudential Indicators set out in the Council's Treasury Management Strategy Statement. The outturn for Prudential and Treasury Indicators is shown in Appendix C.

#### **6. The Counterparty List**

- 6.1 The Current Counterparty List is included at Appendix D.

#### **7. Markets in Financial Instruments Directive II (MiFID II)**

- 7.1 MiFID II and the accompanying Regulation on Markets in Financial Instruments and Amending Regulation (MiFIR) are both pieces of legislation that seek to provide a European-wide legislative framework for regulating the operation of financial markets in the European Union. These revised Regulations have an implementation date of 3<sup>rd</sup> January 2018.
- 7.2 In order to continue to invest in the financial instruments approved in our counterparty list shown in Appendix D, the council will have to show that the officers involved have

the knowledge, skills and training to qualify for professional status, otherwise these new regulations may restrict the use of some of the more regulated financial products that the Council currently uses. The Council has registered with the various financial institutions, to carry on with these investments and has been successfully upgraded to professional status.

## **8. Implications**

### ***Financial***

Interest payable and receivable are reflected in the Council's existing budgets and reviewed appropriately.

### ***Risk Management***

Treasury risks are managed through compliance with the investment strategy and the consideration of Security, Liquidity and Yield, in that order, when assessing potential treasury investments

## **9. Consultation responses**

None required.

## **10. Effect on Strategic Aims**

The report addresses the investment of the council's cash balances, and as such supports all strategic aims.

## **11. Appendices**

Appendix A – The Council's deposits as at 31<sup>st</sup> March 2018

Appendix B – Link's opinion on UK interest rates

Appendix C – Prudential Indicators – Outturn for 2017/18

Appendix D – Current Counterparty List

Appendix E – Glossary of Terms and Abbreviations

## **Background Papers**

Where [the Local Authorities \(Executive Arrangements\) \(Meetings and Access to Information\) \(England\) Regulations 2012](#) require documents to be open to inspection by members of the public, they must be available for inspection: -

- (a) at all reasonable hours at the offices of South Cambridgeshire District Council;
- (b) on the Council's website; and
- (c) in the case of documents to be available for inspection pursuant to regulation 15, on payment of a reasonable fee required by the Council by the person seeking to inspect the documents at the offices of South Cambridgeshire District Council.

No background papers were used in the preparation of this report

**Report Author:** Carolyn Ryba Head of Finance  
Telephone: (01954) 713072

TREASURY MANAGEMENT POSITION AS AT 31<sup>st</sup> March 2018

The Council's current deposits and investments as at 31<sup>st</sup> March 2018 are shown in the table below: -

Category	Counterparty	% Rate	Duration in Days	Principal (£'000)
Building Society	Skipton BS	0.77%	364	3,500
Building Society	Skipton BS	0.75%	364	2,500
Building Society	Skipton BS	0.76%	364	2,000
Clearing Bank	Lloyds Bank	0.90%	364	1,000
Clearing Bank	Lloyds Bank	0.82%	352	1,000
Clearing Bank	Lloyds Bank	1.00%	364	500
Clearing Bank	Santander UK	0.68%	364	1,000
Clearing Bank	Santander UK	0.62%	364	1,000
Clearing Bank	Lloyds Bank	0.75%	332	1,000
Clearing Bank	Barclays Bank plc	0.69%	364	2,000
Clearing Bank	Barclays Bank plc	0.65%	364	2,000
Clearing Bank	Barclays Bank plc	0.54%	364	1,000
Clearing Bank	Barclays Bank plc	0.57%	364	1,000
Clearing Bank	Lloyds Bank	0.65%	364	1,000
Clearing Bank	Barclays Bank plc	0.58%	364	1,000
Clearing Bank	Lloyds Bank	0.65%	364	1,000
Clearing Bank	Lloyds Bank	0.78%	363	1,000
Clearing Bank	Barclays Bank plc	0.58%	364	1,500
Clearing Bank	Lloyds Bank	0.80%	364	1,000
Clearing Bank	Lloyds Bank	0.80%	364	1,000
Clearing Bank	Lloyds Bank	0.80%	364	1,500
Housing Association	Places for People	1.25%	364	1,500
Housing Association	Places for People	1.25%	364	2,500
Housing Association	Places for People	1.25%	364	1,000
Local Authority	LB of Havering	0.80%	16	2,000
Local Authority	Wirral MBC	0.85%	31	2,000
Other	Close Bros	1.10%	358	1,000
Other	Close Bros	0.80%	358	1,000
Other	Close Bros	0.80%	363	1,000
Other	Close Bros	0.80%	364	2,000
Money Market Fund	Standard Life	0.46%	1 day	3,425
South Cambs Ltd	Ermine St	3.85%	589	27,416
South Cambs Ltd	Ermine St	1.00%	183	2,102
South Cambs Ltd	Ermine St	3.20%	273	5,987
Shares	UK Municipal Bond Agency			50
<b>Total</b>				<b>81,480</b>

**LINK'S OPINION ON UK INTEREST & INVESTMENT RATES  
AS AT 31<sup>ST</sup> MARCH 2018**

During the calendar year 2017, there was a major shift in expectations in financial markets in terms of how soon Bank Rate would start on a rising trend. After the UK economy surprised on the upside with strong growth in the second half of 2016, growth in 2017 was disappointingly weak in the first half of the year which meant that growth was the slowest for the first half of any year since 2012. The main reason for this was the sharp increase in inflation caused by the devaluation of sterling after the EU referendum, feeding increases into the cost of imports into the economy. This caused a reduction in consumer disposable income and spending power as inflation exceeded average wage increases. Consequently, the services sector of the economy, accounting for around 75% of GDP, saw weak growth as consumers responded by cutting back on their expenditure. However, growth did pick up modestly in the second half of 2017. Consequently, market expectations during the autumn, rose significantly that the MPC would be heading in the direction of imminently raising Bank Rate. The minutes of the MPC meeting of 14 September indicated that the MPC was likely to raise Bank Rate very soon. The 2 November MPC quarterly Inflation Report meeting duly delivered by raising Bank Rate from 0.25% to 0.50%.

The 8 February 2018 MPC meeting minutes then revealed another sharp hardening in MPC warnings on a more imminent and faster pace of increases in Bank Rate than had previously been expected.

Market expectations for increases in Bank Rate, therefore, shifted considerably during the second half of 2017-18 and resulted in **investment rates** from 3 – 12 months increasing sharply during the spring quarter.

**PWLB borrowing rates** increased correspondingly to the above developments with the shorter-term rates increasing more sharply than longer term rates. In addition, UK gilts have moved in a relatively narrow band this year, (within 25 bps for much of the year), compared to **US treasuries**. During the second half of the year, there was a noticeable trend in treasury yields being on a rising trend with the Fed raising rates by 0.25% in June, December and March, making six increases in all from the floor. The effect of these three increases was greater in shorter terms around 5 year, rather than longer term yields.

The major UK landmark event of the year was the inconclusive result of the **general election** on 8 June. However, this had relatively little impact on financial markets.

### Link's Prediction for Interest Rates

The following table shows when Link predict interest rates will rise, together with an estimate of other interest rates. Link estimate that the Bank Rate will rise from 0.50% to 0.75% in November 2018.

	NOW	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
<b>BANK RATE</b>	0.50%	0.50%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
<b>3 month LIBID</b>	0.60%	0.70%	0.90%	0.90%	0.90%	1.10%	1.20%	1.30%	1.40%	1.50%	1.60%	1.60%
<b>6 month LIBID</b>	0.70%	0.80%	1.00%	1.00%	1.00%	1.20%	1.20%	1.30%	1.00%	1.60%	1.70%	1.70%
<b>12 month LIBID</b>	0.80%	0.90%	1.10%	1.10%	1.20%	1.30%	1.40%	1.40%	1.60%	1.70%	1.80%	1.80%
<b>5 yr PWLB</b>	1.90%	2.00%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%
<b>10 yr PWLB</b>	2.40%	2.40%	2.00%	2.60%	2.60%	2.70%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%
<b>25 yr PWLB</b>	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%
<b>50 yr PWLB</b>	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.00%	3.10	3.10	3.20%	3.20%

**Link's Issue Date:- 11<sup>th</sup> May 2018**

## PRUDENTIAL &amp; TREASURY MANAGEMENT INDICATORS

	Actual 2016/17 £'000	Revised Budget* 2017/18 £'000	Actual 2017/18 £'000
<b>PRUDENTIAL INDICATORS</b>			
<b>Capital expenditure * (Note 1)</b>			
- General Fund	3,199	5,959	4,436
- HRA	14,739	18,550	16,972
3 <sup>rd</sup> Party Loans – Ermine Street Housing	15,653	22,921	19,853
<b>Total</b>	<b>33,591</b>	<b>47,430</b>	<b>41,261</b>
<b>Capital Financing Requirement (CFR) as at 1<sup>st</sup> April</b>			
- General Fund	5,182	20,938	20,938
- HRA	204,429	204,429	204,429
<b>Total</b>	<b>209,611</b>	<b>225,367</b>	<b>225,367</b>
<b>Change in the CFR</b>	16,135	22,921	21,214
<b>Minimum Revenue Provision</b>	-379	-450	-472
<b>Capital Financing Requirement (CFR) as at 31 March</b>	<b>225,367</b>	<b>247,838</b>	<b>246,109</b>
<b>Deposits at 31 March</b>	<b>75,526</b>		<b>81,480</b>
<b>External Gross Debt</b>	<b>205,123</b>	<b>205,123</b>	<b>205,123</b>
<b>Ratio of financing costs to net revenue stream</b>			
-General Fund	-2.00%	-3.00%	-2.00%
-HRA	24.00%	22.00%	24.00%

\*Note1: Refers to the Council's Budget Setting Report 2018/19 as agreed by Council on 22nd February 2018.

## PRUDENTIAL & TREASURY MANAGEMENT INDICATORS

	Actual 2016/17 £'000	Original Budget* 2017/18 £'000	Actual 2017/18 £'000
<b>TREASURY INDICATORS</b>			
<b>Authorised limit</b>			
for borrowing (Note 1)	205,123	249,100	249,100
for other long-term liabilities	0	0	0
<b>Total</b>	<b>205,123</b>	<b>249,100</b>	<b>249,100</b>
<b>HRA Debt Limit</b>	205,123	205,123	205,123
<b>Operational boundary</b>			
for external borrowing (Note 1)	205,123	249,100	249,100
for other long-term liabilities	0	0	0
<b>Total</b>	<b>205,123</b>	<b>249,100</b>	<b>249,100</b>
<b>Upper limit for total principal sums deposited for over 364 days &amp; up to 5 years</b>	<b>41,000</b>	<b>41,000</b>	<b>41,000</b>
<b>Limits for exposure to fixed &amp; variable rate borrowing (Borrowing less investments)</b>			
Fixed rate borrowing/deposits		100%	159%
Variable rate borrowing/deposits		100%	-59%
<b>Maturity structure of new fixed rate borrowing</b>		Upper Limit	Lower Limit
10 years and above (PWL B borrowing for HRA Reform)		100%	100%

Note 1:- Per Borrowing & Investment Strategy Report 2017/18 agreed by Council on 23<sup>rd</sup> February 2017

### Fixed Rate calculation:

<i>(Fixed rate borrowing * - Fixed rate investments*) divided by (Total borrowing - Total investments)</i>	159%
--	------

\*Defined as greater than 1 year to run

### Variable Rate calculation:

<i>(Variable rate borrowing** - Variable rate investments**) divided by (Total borrowing - Total investments)</i>	-59%
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\*\* Defined as less than 1 year to run or in the case of LOBO borrowing the call date falling within the next 12 months.

### Current Counterparty List

The full listing of approved counterparties is shown below, showing the category under which the counterparty has been approved, the appropriate deposit limit and current duration limits. These counterparties have also been shown under Specified and Non-Specified Investments (in line with MHCLG Guidance).

Name	Council's Current Deposit Period	Category	Limit (£)
<b>Specified Investments:-</b>			
All UK Local Authorities	N/A	Local Authority	10m
All UK Police Authorities	N/A	Police Authority	10m
All UK Fire Authorities	N/A	Fire Authority	10m
Debt Management Account Deposit Facility	N/A	DMADF	Unlimited
Barclays Bank Plc	Using Credit Criteria Chart	UK Bank	10m
HSBC Bank Plc	Using Credit Criteria Chart	UK Bank	10m
Lloyds Bank Plc	Using Credit Criteria Chart	UK Bank	10m
Santander UK Plc	Using Credit Criteria Chart	UK Bank	10m
Other UK Retail & Clearing Banks	Using Credit Criteria Chart	UK Banks	10m
Subsidiaries of UK Banks (provided the subsidiaries are UK-incorporated deposit takers under the Financial Services and Markets Act 2000 and provided loans are for a maximum period of three months)	Using Credit Criteria Chart	UK Banks	3m
Places for People Homes Ltd	Using Credit Criteria Chart	Registered Housing Association	5m
Close Brothers Ltd	Using Credit Criteria Chart	UK Retail Bank	5m
<b>Money Market Funds:</b> HSBC GLF MMF Aberdeen Standard Life Deutsche GLS Barclays Call Account	Liquid Rolling Balance	Financial Instrument	10m (per fund)

Name	Council's Current Deposit Period	Society Asset Value (£'m) – as at 1st May 2018	Limit (£)
<b>Other Specified Investments - UK Building Societies: -</b>			
Nationwide Building Society	Deposit period: Using Credit Criteria chart below	221,670	Assets greater than £10,000m <b>Limit - £10m</b>
Yorkshire Building Society		42,047	
Coventry Building Society		42,573	Assets between £10,000m and £5,000m <b>Limit - £5m</b>
Skipton Building Society		21,024	
Leeds Building Society		18,484	
Principality Building Society		9,263	Assets between £5,000m and £1,500m <b>Limit - £3m</b>
Nottingham Building Society		3,988 (Jun 2018)	
Name	Council's Current Deposit Period	Category	Limit (£)
<b>Non-Specified Investments: -</b>			
All UK Local Authorities – longer term limit	Over 1 year and up to 5 years	Local Authority	10m per single counterparty
CCLA Local Authorities' Property Fund	Minimum of 5 years	Pooled UK Property Fund	Up to 10m
South Cambs Ltd - Housing Co.	Up to 5 year	Loan	107m
UK Municipal Bonds Agency	N/A	Share Capital	0.050m

Grading (for the purpose of standardisation)		Fitch		Moody's		Standard & Poor's				
		Long Term	Short Term less than or equal to one year	Long Term	Short Term less than or equal to one year	Long Term	Short Term less than or equal to one year			
Investment Grade	Extremely strong Grade	AAA	F1+	Aaa	P-1		AAA	A-1+		
	Very Strong Grade	AA+	F1+	Aa1	P-1		AA+	A-1+		
		AA	F1+	Aa2	P-1		AA	A-1+		
		AA-	F1+	Aa3	P-1		AA-	A-1+		
	Strong, but susceptible to adverse conditions grade (strong grade)	A+	F1+	F1	A1	P-1		A+	A-1+	A-1
		A	F1		A2	P-1	P-2	A	A-1+	
		A-	F1	F2	A3	P-1	P-2	A-	A-1+	A-2
	Adequate grade	BBB+	F2		Baa1	P-2		BBB+	A-2	
		BBB	F2	F3	Baa2	P-2	P-3	BBB	A-2	A-3
		BBB-	F3		Baa3	P-3		BBB-	A-3	
Sub-investing Grade	Speculative grade	BB+	B	Ba1	Not Prime (NP)		BB+	B-1		
		BB	B	Ba2	NP		BB	B-2		
		BB-	B	Ba3	NP		BB-	B-3		
	Very speculative grade	B+	B	B1	NP		B+	-		
		B	B	B2	NP		B	-		
		B-	B	B3	NP		B-	-		
	Vulnerable grade	CCC	C		Caa1	NP		CCC+	C	
		CCC	C		Caa2	NP		CCC	C	
		CCC	C		Caa3	NP		CCC-	C	
		CC	C		-	NP		CC	C	
C		C		Ca	NP		C	C		
Defaulting grade	D	D		C	NP		D	D		

SCDC Investment Criteria

## Appendix E

### Treasury Management – Glossary of Terms and Abbreviations

Term	Definition
Authorised Limit for External Borrowing	Represents a control on the maximum level of borrowing
Capital Expenditure	Expenditure capitalised in accordance with regulations i.e. material expenditure either by Government Directive or on capital assets, such as land and buildings, owned by the Council (as opposed to revenue expenditure which is on day to day items including employees' pay, premises costs and supplies and services)
Capital Financing Requirement	A measure of the Council's underlying borrowing need i.e. it represents the total historical outstanding capital expenditure which has not been paid for from either revenue or capital resources
Certificates of Deposit (CDs)	Low risk certificates issued by banks which offer a higher rate of return
CIPFA	Chartered Institute of Public Finance and Accountancy
Corporate Bonds	Financial instruments issued by corporations
Counter-parties	Financial Institutions with which funds may be placed
Credit Risk	Risk of borrower defaulting on any type of debt by failing to make payments which it is obligated to do
DCLG	Department for Communities & Local Government
Enhanced Cash Funds	Higher yielding funds typically for investments exceeding 3 months
Eurocurrency	Currency deposited by national governments or corporations in banks outside of their home market
External Gross Debt	Long-term liabilities including Private Finance Initiatives and Finance Leases
HRA	Housing Revenue Account - a 'ring-fenced' account for local authority housing account where a council acts as landlord
HRA Self-Financing	A new funding regime for the HRA introduced in place of the previous annual subsidy system
London Interbank Offered rate (LIBOR)	A benchmark rate that some of the leading banks charge each other for short-term loans
London Interbank Bid Rate (LIBID)	The average interest rate which major banks London banks borrow Eurocurrency deposits from other banks
Liquidity	A measure of how readily available a deposit is

<b>Term</b>	<b>Definition</b>
MPC	Monetary Policy Committee - The Bank of England Committee responsible for setting the UK's bank base rate
Minimum Revenue Provision (MRP)	Revenue charge to finance the repayment of debt
Non-Specified Investments	These are investments that do not meet the conditions laid down for Specified Investments and potentially carry additional risk, e.g. lending for periods beyond 1 year
Operational Boundary	Limit which external borrowing is not normally expected to exceed
PWLB	Public Works Loans Board - an Executive Government Agency of HM Treasury from which local authorities & other prescribed bodies may borrow at favourable interest rates
Security	A measure of the creditworthiness of a counter-party
Specified Investments	Those investments identified as offering high security and liquidity. They are also sterling denominated, with maturities up to a maximum of 1 year, meeting the minimum 'high' credit rating criteria where applicable
Supranational Bonds	Multi-lateral Development Bank Bond
UK Government Gilts	Longer-term Government securities with maturities over 6 months and up to 30 years
UK Government Treasury Bills	Short-term securities with a maximum maturity of 6 months issued by HM Treasury
Yield	Interest, or rate of return, on an investment

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# Agenda Item 7



**REPORT TO:** Audit and Corporate Governance Committee

26 March 2019

**LEAD OFFICER:** Bob Palmer, Interim Executive Director of Corporate Services

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## HALF-YEAR TREASURY MANAGEMENT REPORT 2018/19

### 1. Executive Summary

1.1 The Council has adopted The Chartered Institute of Public Finance (CIPFA) Code of Practice on Treasury Management (Revised 2017).

1.2 The Code requires as a minimum receipt by full Council of an Annual Treasury Management Strategy Statement – including the Annual Investment Strategy and Minimum Revenue Provision Policy – for the year ahead, a half year report and an annual report (stewardship report) covering activities in the previous year. In this council, the receipt of the annual report and the half year report is delegated to the Audit and Corporate Governance Committee.

1.3 This half year report has been prepared in accordance with CIPFA's Code of Practice on Treasury Management and covers the following:-

- The Council's capital expenditure (prudential indicators);
- A review of compliance with treasury and prudential limits for 2018/19;
- A review of the council's borrowing strategy for 2018/19;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- A review of the council's investment portfolio for 2018/19; and
- An update on interest rate forecasts following economic news in the first half of the 2018/19 financial year.

### 2 Recommendations

2.1 The committee is asked to consider and comment on the council's mid-year position.

### **3 Background**

- 3.1 The council is required to comply with the CIPFA Prudential Code (December 2017 edition) and the CIPFA Treasury Management Code of Practice (revised December 2017). The council is required to set prudential and treasury indicators, including an authorised limit for borrowing, for a three-year period and should ensure that its capital plans are affordable, prudent and sustainable.
- 3.2 The council is currently supported in its treasury management functions by specialist advisors who are Link Asset Services. Link's services include the provision of advice to the council on developments and best practice in this area and provide information on the creditworthiness of potential counterparties, deposits, borrowing, interest rates and the economy.

### **4 The council's capital expenditure and financing 2018/19 to 2021/22**

- 4.1 The council undertakes capital expenditure on long-term assets. These activities may either be:-
- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, developer contributions, revenue contributions, reserves etc.), which has no resultant impact on the council's borrowing need; or
  - If insufficient financing is available, or a decision is taken not to apply other resources, the funding of capital expenditure will give rise to a borrowing need.
- 4.2 Details of capital expenditure forms one of the required prudential indicators. The table below shows the proposed capital expenditure and how it will be financed. It also includes any re-phasing during 2018/19 and is in line with the agreed capital plan.

	2018/19 Original Estimate £'000	2018/19 Revised Estimate £'000	2018/19 Variance £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
General Fund (GF) capital expenditure	4,827	4,051	(776)	23,854	27,895
Housing Revenue Account (HRA) capital expenditure	22,873	18,637	(4,236)	27,031	35,851
3rd party loans - Ermine St Housing	15,000	28,055	13,055	12,507	12,689
3rd party loans - Other	1,850	2,400	550	0	0
<b>Total capital expenditure</b>	<b>44,550</b>	<b>53,143</b>	<b>8,593</b>	<b>63,392</b>	<b>76,435</b>
<b>Financed by:</b>					
Capital receipts	8,644	4,718	(3,926)	6,860	8,822
Capital grants	4,898	4,338	(560)	3,688	10,033
HRA capital reserve	9,902	6,727	(3,175)	6,689	6,868
Revenue contributions	2,961	5,138	2,177	13,041	12,622
Earmarked reserves	960	922	(38)	607	5,187
<b>Total available resources for financing capital expenditure</b>	<b>27,365</b>	<b>21,843</b>	<b>5,522</b>	<b>30,885</b>	<b>43,532</b>
<b>Un-financed capital expenditure</b>	<b>17,185</b>	<b>31,300</b>	<b>14,115</b>	<b>32,507</b>	<b>32,903</b>

## 5 The council's prudential and treasury management indicators

5.1 The table below shows the Capital Financing Requirement (CFR), which is the underlying need to incur borrowing for a capital purpose. It also shows the expected debt position over the period.

	2018/19 Original Estimate £'000	2018/19 Revised Estimate £'000	2018/19 Variance £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
<b>Capital Financing Requirement (CFR) as at 1<sup>st</sup> April</b>					
- General Fund	56,338	63,255	14,115	95,006	126,896
- HRA	204,429	204,429	0	204,429	204,429
<b>Total CFR</b>	<b>260,766</b>	<b>267,684</b>	<b>14,115</b>	<b>299,435</b>	<b>331,325</b>
<b>Movement in CFR</b>	<b>12,928</b>	<b>30,583</b>	<b>14,115</b>	<b>31,751</b>	<b>31,890</b>

5.2 A further prudential indicator controls the overall level of borrowing. This is the authorised limit which represents the limit beyond which borrowing is prohibited and needs to be set and revised by members.

5.3 The table below shows the council's current outstanding external debt and headroom (the amount of additional borrowing that is possible without breaching the authorised limit).

	30 September 2018 Principal £'000
<b>Authorised external borrowing limit (A) – Treasury Management Strategy Statement 2018/19</b>	<b>222,000</b>
2012 Borrowing for HRA self-financing (B)	205,123
Headroom as at 1 April 2018 (A minus B)	16,877
2018/19 borrowing up to 30 September 2018	8,600
<b>Current headroom</b>	<b>8,277</b>

5.4 During the period the council has operated within the authorised and operational borrowing limits contained within the prudential indicators set out in the council's Treasury Management Strategy Statement. The anticipated prudential and treasury indicators are shown in Appendix A.

## **6 Borrowing**

- 6.1 The council is permitted to borrow under the Prudential Framework, introduced with effect from 1 April 2004.
- 6.2 At present, debt held by the authority consists of 41 maturity loans with the Public Works Loans Board (PWLB) totaling £205,123,000 and 3 short term loans for cash flow purposes with other public bodies totaling £8,600,000.
- 6.3 The council's current capital plan requires external borrowing to support lending to Ermine Street Housing Limited. The requirement for this borrowing will be kept under review, with particular consideration of the council's cash balances and cash flow forecasts.
- 6.4 The provision for the repayment of debt is known as the Minimum Revenue Provision (MRP). Regulations require the authority to determine annually a policy by which MRP will be determined. This policy was agreed by Council on 22 February 2018.
- 6.5 In the event that external borrowing is undertaken, the council is able, as an eligible local authority, to access funds at the PWLB Certainty Rate (a 0.20% discount on loans, until 31 October 2019 at least (with the date agreed annually).

## **7 Investment portfolio**

- 7.1 The council takes a cautious approach within its Treasury Management Strategy Statement, and the detailed counterparty list with limits is shown within Appendix B.
- 7.2 The average rate of return for the 6 months to 30 September 2018 for loans to Ermine Street Housing was 3.78% (2017/18 3.73%). The average rate for all other deposits was 0.89% (2017/18 0.81%). Net investment interest for the year was included in the council budget estimates as £1,702,000 with an estimated £571,240 payable to the Housing Revenue Account. An overachievement of £173,100 net interest is forecast in the year due to higher balance levels and longer periods of investment, predominantly with Ermine Street Housing.

7.3 The council's investments at 30 September 2018 are shown below.

	<b>31-Mar-18 £'000</b>	<b>30-Sep-18 £'000</b>
Local authorities	4,000	16,500
Ermine Street Housing Ltd	35,506	49,084
Clearing banks	20,500	27,000
Other banks	5,000	5,000
Housing Associations	5,000	5,000
Money Market Funds	3,425	1,615
Building Societies with assets:		
- Greater than £10bn	8,000	9,000
- Between £5bn and £10bn	0	0
- Between £1.5bn and £5bn	0	0
Shares	50	50
<b>Total</b>	<b>81,481</b>	<b>113,249</b>

## 8 Interest rates

8.1 Link Asset Services is the council's independent treasury advisor. In support of effective forecasting the council needs to be aware of the potential influence of interest rates on treasury management issues for the council. Link's opinion on interest rates is presented in Appendix C.

## 9 Implications

### ***Financial Implications***

The prudential and treasury indicators have been amended to take account of known financial activities.

### ***Risk management***

Treasury risks are managed through compliance with the investment strategy and consideration of Security, Liquidity and Yield, in that order, when assessing potential treasury investments.

## 10 Consultation responses

None required.

## 11. Background papers

No background papers were used in the preparation of this report.

## 12. Appendices

- 12.1 Appendix A – Prudential and treasury management indicators
- Appendix B – The council's current counterparty list
- Appendix C – Link's opinion on UK forecast interest rates
- Appendix D – Glossary of Terms and Abbreviations

### Background Papers

Where [the Local Authorities \(Executive Arrangements\) \(Meetings and Access to Information\) \(England\) Regulations 2012](#) require documents to be open to inspection by members of the public, they must be available for inspection: -

- (a) at all reasonable hours at the offices of South Cambridgeshire District Council;
- (b) on the Council's website; and
- (c) in the case of documents to be available for inspection pursuant to regulation 15, on payment of a reasonable fee required by the Council by the person seeking to inspect the documents at the offices of South Cambridgeshire District Council.

**Report Author:** Carolyn Ryba, Head of Finance  
Telephone: (01954) 713072

## PRUDENTIAL &amp; TREASURY MANAGEMENT INDICATORS

£'000	2018/19 Original estimate	2018/19 Revised Estimate	2019/20 Estimate	2020/21 Estimate
<b>PRUDENTIAL INDICATORS</b>				
<b>Capital expenditure</b>				
General Fund	4,827	4,051	23,854	27,895
HRA	22,873	18,637	27,031	35,851
Third party loans – ESH	15,000	28,055	12,507	12,689
Third party loans - Other	1,850	2,400	0	0
<b>Total capital expenditure</b>	<b>44,550</b>	<b>53,143</b>	<b>63,392</b>	<b>76,435</b>
<b>Capital Financing Requirement (CFR) as at 31 March</b>				
- General Fund	56,338	63,255	95,006	126,896
- HRA	204,429	204,429	204,429	204,429
<b>Total</b>	<b>260,766</b>	<b>267,684</b>	<b>299,435</b>	<b>331,325</b>
<b>Change in CFR</b>	<b>12,928</b>	<b>30,583</b>	<b>31,751</b>	<b>31,890</b>
<b>Deposits at 31 March</b>	<b>85,000</b>	<b>85,000</b>	<b>70,000</b>	<b>60,000</b>
<b>External Gross Debt</b>	<b>205,123</b>	<b>205,123</b>	<b>237,630</b>	<b>270,319</b>
<b>Ratio of financing costs to net revenue stream</b>				
- General Fund	<b>-4%</b>	<b>-2%</b>	<b>-2%</b>	<b>-1%</b>
- HRA	<b>22%</b>	<b>24%</b>	<b>24%</b>	<b>24%</b>

## PRUDENTIAL & TREASURY MANAGEMENT INDICATORS

£'000	2018/19 Original estimate	2018/19 Revised estimate	2019/20 Estimate	2020/21 Estimate
<b>TREASURY INDICATORS</b>				
<b>Authorised limit</b>				
for borrowing	222,000	277,684	309,435	341,325
for other long-term liabilities	0	0	0	0
<b>Total</b>	<b>222,000</b>	<b>277,684</b>	<b>309,435</b>	<b>341,325</b>
HRA	205,123	205,123	205,123	205,123
<b>Operational boundary</b>				
for borrowing	222,000	272,684	304,435	336,325
for other long-term liabilities	0	0	0	0
<b>Total</b>	<b>222,000</b>	<b>272,684</b>	<b>304,435</b>	<b>336,325</b>
<b>Upper limit for total principal sums deposited for over 364 days</b>	<b>70,000</b>	<b>70,000</b>	<b>80,000</b>	<b>95,000</b>
<b>Limits for exposure to fixed and variable rate borrowing (borrowing less investments)</b>				
Fixed rate borrowing / deposits	178%	178%	176%	176%
Variable rate borrowing / deposits	-68%	-68%	-71%	-71%
<b>Maturity structure of new fixed rate borrowing</b>		Upper Limit	Lower Limit	
10 years and above		100%	0%	

**Current Counterparty List**

The full listing of approved counterparties is shown below, showing the category under which the counterparty has been approved, the appropriate deposit limit and current duration limits. These counterparties have also been shown under Specified and Non-Specified Investments (in line with MHCLG Guidance).

Name	Council's Current Deposit Period	Category	Limit (£)
<b>Specified Investments: -</b>			
All UK Local Authorities	N/A	Local Authority	10m
All UK Police Authorities	N/A	Police Authority	10m
All UK Fire Authorities	N/A	Fire Authority	10m
Debt Management Account Deposit Facility	N/A	DMADF	Unlimited
Barclays Bank Plc	Using Link Asset Services Credit Criteria	UK Bank	10m
HSBC Bank Plc	Using Link Asset Services Credit Criteria	UK Bank	10m
Lloyds Bank Plc	Using Link Asset Services Credit Criteria	UK Bank	10m
Santander UK Plc	Using Link Asset Services Credit Criteria	UK Bank	10m
Other UK Retail & Clearing Banks	Using Link Asset Services Credit Criteria	UK Banks	10m
Subsidiaries of UK Banks (provided the subsidiaries are UK-incorporated deposit takers under the Financial Services and Markets Act 2000 and provided loans are for a maximum period of three months)	Using Link Asset Services Credit Criteria	UK Banks	3m
Places for People Homes Ltd	Using Link Asset Services Credit Criteria	Registered Housing Association	5m
Close Brothers Ltd	Using Link Asset Services Credit Criteria	UK Retail Bank	5m

Name	Council's Current Deposit Period	Category	Limit (£)
<b>Money Market Funds:</b> HSBC GLF MMF Aberdeen Standard Life Deutsche GLS Barclays Call Account	Liquid Rolling Balance	Financial Instrument	10m (per fund)

Name	Council's Current Deposit Period	Society Asset Value (£'m) – as at 1st May 2018	Limit (£)
<b>Other Specified Investments - UK Building Societies: -</b>			
Nationwide Building Society	Using Link Asset Services Credit Criteria	221,670	Assets greater than £10,000m <b>Limit - £10m</b>
Yorkshire Building Society		42,047	
Coventry Building Society		42,573	Assets between £10,000m and £5,000m <b>Limit - £5m</b>
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Principality Building Society		9,263	
Nottingham Building Society		3,988 (Jun 2018)	
<b>Name</b>	<b>Council's Current Deposit Period</b>	<b>Category</b>	<b>Limit (£)</b>
<b>Non-Specified Investments: -</b>			
All UK Local Authorities – longer term limit	Over 1 year and up to 5 years	Local Authority	10m per single counterparty
CCLA Local Authorities' Property Fund	Minimum of 5 years	Pooled UK Property Fund	Up to 10m
South Cambs Ltd - Housing Co.	Up to 5 years	Loan	107m
UK Municipal Bonds Agency	N/A	Share Capital	0.050m

**Link's opinion on UK forecast interest rates**

The Council's treasury advisor, Link Asset Services, has provided the following forecast:

Link Asset Services Interest Rate View											
	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
3 Month LIBID	0.75%	0.80%	0.80%	0.90%	1.10%	1.10%	1.20%	1.40%	1.50%	1.60%	1.60%
6 Month LIBID	0.85%	0.90%	0.90%	1.00%	1.20%	1.20%	1.30%	1.50%	1.60%	1.70%	1.70%
12 Month LIBID	1.00%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.60%	1.70%	1.80%	1.80%
5yr PWLB Rate	2.00%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%
10yr PWLB Rate	2.40%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%

The flow of generally positive economic statistics after the end of the quarter ended 30 June meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, to 0.75%. However, the MPC emphasised again, that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary or contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time but they declined to give a medium term forecast. We do not think that the MPC will increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. We also feel that the MPC is more likely to wait until August 2019, than May 2019, before the next increase, to be followed by further increases of 0.25% in May and November 2020 to reach 1.5%. However, the cautious pace of even these limited increases is dependent on a reasonably orderly Brexit.

**The balance of risks to the UK**

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

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

- Bank of England monetary policy takes action too quickly 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, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March of a government which has made a lot of anti-austerity noise. This is likely to lead to friction with the EU when setting the target for the fiscal deficit in the national budget. Unsurprisingly, investors have taken a dim view of this and so Italian bond yields have been rising.
- Austria, the Czech Republic and Hungary now form a strongly anti-immigration bloc within the EU while Italy, this year, has also elected a strongly anti-immigration

government. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position as a result of the rise of the anti-immigration AfD party. To compound this, the result of the Swedish general election in September 2018 has left an anti-immigration party potentially holding the balance of power in forming a coalition government. The challenges from these political developments could put considerable pressure on the cohesion of the EU and could spill over into impacting the euro, EU financial policy and financial markets.

- The imposition of trade tariffs by President Trump could negatively impact world growth. President Trump's specific actions against Turkey pose a particular risk to its economy which could, in turn, negatively impact Spanish and French banks which have significant exposures to loans to Turkey.
- Weak capitalisation of some European banks.
- Rising interest rates in the US could negatively impact emerging countries which have borrowed heavily in dollar denominated debt, so causing an investor flight to safe havens e.g. UK gilts.
- Geopolitical risks, especially 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**

- President Trump's fiscal plans to stimulate economic expansion causing a significant increase in inflation in the US and causing further sell offs of government bonds in major western countries.
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of QE, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.
- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation 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 – Glossary of Terms and Abbreviations

Term	Definition
Authorised Limit for External Borrowing	Represents a control on the maximum level of borrowing
Capital Expenditure	Expenditure capitalised in accordance with regulations i.e. material expenditure either by Government Directive or on capital assets, such as land and buildings, owned by the Council (as opposed to revenue expenditure which is on day to day items including employees' pay, premises costs and supplies and services)
Capital Financing Requirement	A measure of the Council's underlying borrowing need i.e. it represents the total historical outstanding capital expenditure which has not been paid for from either revenue or capital resources
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CIPFA	Chartered Institute of Public Finance and Accountancy
Corporate Bonds	Financial instruments issued by corporations
Counterparties	Financial Institutions with which funds may be placed
Credit Risk	Risk of borrower defaulting on any type of debt by failing to make payments which it is obligated to do
MHCLG	Ministry for Housing, Communities & Local Government (formerly the Department for Communities & Local Government, DCLG)
Enhanced Cash Funds	Higher yielding funds typically for investments exceeding 3 months
Eurocurrency	Currency deposited by national governments or corporations in banks outside of their home market
External Gross Debt	Long-term liabilities including Private Finance Initiatives and Finance Leases
Government CNAV	Highly liquid sovereign stock based on a Constant Net Asset Value (CNAV)
HRA	Housing Revenue Account - a 'ring-fenced' account for local authority housing account where a council acts as landlord
HRA Self-Financing	The funding regime for the HRA introduced in place of the previous annual subsidy system
London Interbank Offered Rate (LIBOR)	A benchmark rate that some of the leading banks charge each other for short-term loans
London Interbank Bid Rate (LIBID)	The average interest rate which major London banks borrow Eurocurrency deposits from other banks
Liquidity	A measure of how readily available a deposit is
MPC	Monetary Policy Committee - The Bank of England Committee responsible for setting the UK's bank base rate
Low Volatility Net Asset Value (LVNAV)	Highly liquid sovereign stock based on a Constant Net Asset Value (CNAV)
Non-Ring-Fenced Bank (NRFB)	Government & Bank of England rules will apply to all UK Banks which have to split their business into 'core' retail and investment units known as Ring and Non-Ring-Fenced Banks for the 1 <sup>st</sup> January 2019 deadline

<b>Term</b>	<b>Definition</b>
Non-Specified Investments	These are investments that do not meet the conditions laid down for Specified Investments and potentially carry additional risk, e.g. lending for periods beyond 1 year
Operational Boundary	Limit which external borrowing is not normally expected to exceed
PWLB	Public Works Loans Board - an Executive Government Agency of HM Treasury from which local authorities & other prescribed bodies may borrow at favourable interest rates
Ring Fenced Bank (RFB)	Government & Bank of England rules will apply to all UK Banks which have to split their business into 'core' retail and investment units known as Ring and Non-Ring-Fenced Banks for the 1 <sup>st</sup> January 2019 deadline
Security	A measure of the creditworthiness of a counter-party
Specified Investments	Those investments identified as offering high security and liquidity. They are also sterling denominated, with maturities up to a maximum of 1 year, meeting the minimum 'high' credit rating criteria where applicable
Supranational Bonds	Multi-lateral Development Bank Bond
UK Government Gilts	Longer-term Government securities with maturities over 6 months and up to 30 years
Variable Net Asset Value (VNAV)	MMFs values based on daily market fluctuations to 2 decimal places known as mark-to-market prices
UK Government Treasury Bills	Short-term securities with a maximum maturity of 6 months issued by HM Treasury
Weighted Average Life (WAL)	Weighted average length of time of unpaid principal
Weighted Average Maturity (WAM)	Weighted average amount of time to maturity
Yield	Interest, or rate of return, on an investment

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