Public Document Pack

Democratic Services
White Cliffs Business Park
Dover
Kent CT16 3PJ

Telephone:	**(01304) 821199**
Fax:	**(01304) 872453**
DX:	**6312**
Minicom:	**(01304) 820115**
Website:	**www.dover.gov.uk**
e-mail:	**democraticservices @dover.gov.uk**

29 November 2017

Dear Councillor

NOTICE IS HEREBY GIVEN THAT a meeting of the **GOVERNANCE COMMITTEE** will be held in the HMS Brave Room at these Offices on Thursday 7 December 2017 at 6.00 pm when the following business will be transacted.

Members of the public who require further information are asked to contact Jemma Duffield on (01304) 872305 or by e-mail at jemma.duffield@dover.gov.uk.

Yours sincerely

Chief Executive

Governance Committee Membership:

P G Heath (Chairman)
D Hannent (Vice-Chairman)
B W Butcher
P I Carter
M I Cosin
M R Eddy
S J Jones

AGENDA

1 **APOLOGIES**

To receive any apologies for absence.

2 **APPOINTMENT OF SUBSTITUTE MEMBERS**

To note appointments of Substitute Members.

3 **DECLARATIONS OF INTEREST** (Page 3)

To receive any declarations of interest from Members in respect of business to be transacted on the agenda.

4 **MINUTES** (Pages 4 - 8)

To confirm the attached Minutes of the meeting of the Committee held on 28 September 2017.

5 **QUARTERLY INTERNAL AUDIT UPDATE REPORT** (Pages 9 - 30)

To consider the attached report of the Head of Audit Partnership.

6 **TREASURY MANAGEMENT QUARTER TWO REPORT 2017/18** (Pages 31 - 48)

To consider the attached report of the Head of Finance, Housing and Community.

7 **ANNUAL AUDIT LETTER** (Pages 49 - 58)

To consider the attached report from Grant Thornton.

Access to Meetings and Information

- Members of the public are welcome to attend meetings of the Council, its Committees and Sub-Committees. You may remain present throughout them except during the consideration of exempt or confidential information.

- All meetings are held at the Council Offices, Whitfield unless otherwise indicated on the front page of the agenda. There is disabled access via the Council Chamber entrance and a disabled toilet is available in the foyer. In addition, there is a PA system and hearing loop within the Council Chamber.

- Agenda papers are published five clear working days before the meeting. Alternatively, a limited supply of agendas will be available at the meeting, free of charge, and all agendas, reports and minutes can be viewed and downloaded from our website www.dover.gov.uk. Minutes will be published on our website as soon as practicably possible after each meeting. All agenda papers and minutes are available for public inspection for a period of six years from the date of the meeting.

- If you require any further information about the contents of this agenda or your right to gain access to information held by the Council please contact Jemma Duffield, Democratic Services Officer, telephone: (01304) 872305 or email: jemma.duffield@dover.gov.uk for details.

Large print copies of this agenda can be supplied on request.

Declarations of Interest

Disclosable Pecuniary Interest (DPI)

Where a Member has a new or registered DPI in a matter under consideration they must disclose that they have an interest and, unless the Monitoring Officer has agreed in advance that the DPI is a 'Sensitive Interest', explain the nature of that interest at the meeting. The Member must withdraw from the meeting at the commencement of the consideration of any matter in which they have declared a DPI and must not participate in any discussion of, or vote taken on, the matter unless they have been granted a dispensation permitting them to do so. If during the consideration of any item a Member becomes aware that they have a DPI in the matter they should declare the interest immediately and, subject to any dispensations, withdraw from the meeting.

Other Significant Interest (OSI)

Where a Member is declaring an OSI they must also disclose the interest and explain the nature of the interest at the meeting. The Member must withdraw from the meeting at the commencement of the consideration of any matter in which they have declared a OSI and must not participate in any discussion of, or vote taken on, the matter unless they have been granted a dispensation to do so or the meeting is one at which members of the public are permitted to speak for the purpose of making representations, answering questions or giving evidence relating to the matter. In the latter case, the Member may only participate on the same basis as a member of the public and cannot participate in any discussion of, or vote taken on, the matter and must withdraw from the meeting in accordance with the Council's procedure rules.

Voluntary Announcement of Other Interests (VAOI)

Where a Member does not have either a DPI or OSI but is of the opinion that for transparency reasons alone s/he should make an announcement in respect of a matter under consideration, they can make a VAOI. A Member declaring a VAOI may still remain at the meeting and vote on the matter under consideration.

Note to the Code:

Situations in which a Member may wish to make a VAOI include membership of outside bodies that have made representations on agenda items; where a Member knows a person involved, but does not have a close association with that person; or where an item would affect the well-being of a Member, relative, close associate, employer, etc. but not his/her financial position. It should be emphasised that an effect on the financial position of a Member, relative, close associate, employer, etc OR an application made by a Member, relative, close associate, employer, etc would both probably constitute either an OSI or in some cases a DPI.

Minutes of the meeting of the **GOVERNANCE COMMITTEE** held at the Council Offices, Whitfield on Thursday, 28 September 2017 at 6.00 pm.

Present:

Chairman:	Councillor P G Heath
Councillors:	B W Butcher M I Cosin M R Eddy D Hannent S J Jones
Also Present:	Engagement Lead – Grant Thornton
Officers:	Director of Governance Director of Finance, Housing and Community Head of Finance Head of Audit Partnership (East Kent Audit Partnership) Income Manager Head of Finance (East Kent Housing) Democratic Services Officer

10 APOLOGIES

An apology for absence was received from Councillor P I Carter.

11 APPOINTMENT OF SUBSTITUTE MEMBERS

There were no substitute Members appointed.

12 DECLARATIONS OF INTEREST

There were no declarations of interest made by Members.

13 MINUTES

The Minutes of the meeting of the Committee held on 29 June 2017 were approved as a correct record and signed by the Chairman.

14 ORDER OF BUSINESS

The Chairman proposed that the order of business be changed to allow for agenda items 7, 8 and 9 to be considered before agenda item 5.

RESOLVED: That, in accordance with Council Procedure Rule 14, the order of business be amended in order that agenda items 7, 8 and 9 be considered before item 5.

15 AUDIT FINDINGS REPORT

The Engagement Lead – Grant Thornton presented the Audit Findings report which highlighted the key matters arising from the audit of financial statements for the year ended 31 March 2017.

The opinion on the Council's Financial Statements and the conclusion on Value for Money were unqualified. A small number of disclosure amendments were identified to improve the presentation of the financial statements and no control weaknesses were identified.

Thanks were expressed by Grant Thornton and Members to the finance team for their assistance and quality of work during the audit.

RESOLVED: That the Audit Findings report be noted.

16 FINANCIAL OUTTURN REPORT 2016/17

The Head of Finance presented the Financial Outturn Report 2016/17 to the committee. Members were directed to the key points in the report for the financial outturn for the year and of which included:

- The General Fund was broadly balanced for the year, showing a small deficit of £12k before a budgeted transfer of £450k to the Business Rates and Council Tax Reserve which left the year-end General Fund balance at £2.5m;
- HRA balances (including earmarked HRA reserves) had been increased by £4.1m; and
- The total interest received for the year was approximately £344k which was higher than the original budget of £329k.

Members were advised that cash balances were slightly higher than previously and resulted in the interest increase.

RESOLVED: That the Financial Outturn report 2016/17 be noted.

17 STATEMENT OF ACCOUNTS 2016/17

The Head of Finance presented the report on the Statement of Accounts 2016/17 to the Committee. As previously reported to the Committee in the audit findings report, a small number of minor adjustments and disclosure amendments were made to the draft statement of accounts provided to the auditors in order to improve the overall presentation of the financial statements.

RESOLVED: (a) That the audited Statement of Accounts for 2016/17 be approved and signed by the Chairman of the Committee.

(b) That the Committee authorises the Chairman to sign the Letter of Representation.

18 QUARTERLY INTERNAL AUDIT UPDATE REPORT

The Head of Audit Partnership introduced the Quarterly Internal Audit Update report to the Committee. There had been six audits undertaken during the period, of which three were classified as providing Substantial assurance, one as Reasonable and one with a split level of Substantial/Limited assurance. Whilst noting the Substantial assurance given to Homelessness Members expressed their concerns facing the challenges for the council in the future.

As a result of an audit report in June 2014 it had been identified that payroll exemptions were required to be reviewed on a regular basis and were required to be carried by either Dover or Thanet Councils. As this had yet to be confirmed a partially Limited assurance was placed on EKHR Benefits in Kind.

During the period six follow up reviews were completed and two priority recommendations were outstanding at the time of the follow ups. It was explained to Members that whilst dealing with facts and figures, there was an element of subjectivity when assessing services and that some areas may need time to embed new systems or processes to obtain a Substantial assurance level.

RESOLVED: That the report be noted.

19 TREASURY MANAGEMENT QUARTER ONE REPORT 2017/18

The Head of Finance introduced the Treasury Management Quarter One Report 2017/18 to the Committee. The Council's investment return for the quarter was above the benchmark at 0.45% and the income for the year was £655 better than the original budget estimate of £305k. £6 million had been invested in the CCLA property fund and was within the limit set in the Treasury Management Statement.

Whilst the Council remained within its Treasury Management and Prudential Code guidelines with an exception of briefly exceeding the £8m investment limit with the bank of Scotland for 11 days only.

RESOLVED: That the report be received and noted.

20 EXCLUSION OF THE PRESS AND PUBLIC

It was moved by Councillor D Hannent, duly seconded and

RESOLVED: That, under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the meeting for the remainder of the business on the grounds that the items to be considered involved the likely disclosure of exempt information as defined in paragraph 3 of Part I of Schedule 12A of the Act.

21 ANNUAL DEBT COLLECTION REPORT - EAST KENT SERVICES

The Director of Finance, Housing and Community presented the Annual Debt Collection Report for East Kent Services (EKS) to the Committee. The report provided Members with the value of income collected and write-offs undertaken by EKS on behalf of Dover District Council in 2016/17.

The Income Manager (EKS) advised Members that statutory and regulatory procedures had been followed for the collection of business rates.

RESOLVED: (a) Members resolved to note:

(i) the value of income collected and write-offs for each type of income, as set out in the report;

(ii) the generally high collection rates;

(iii) the aged debt profile;

(iv) the additional points set out in paragraph 8 of the report.

22 ANNUAL DEBT COLLECTION REPORT - EAST KENT HOUSING

The Director of Finance, Housing and Community presented the Annual Debt Collection Report for East Kent Housing (EKH) to the Committee. The report provided Members with the value of income collected and write-offs undertaken on behalf of Dover District Council in 2016/17.

RESOLVED: (a) Members resolved to note:

(i) the value of income collected and write-offs for each type of income, as set out in the report;

(ii) the generally high collection rates on key collection areas;

(iii) the aged debt profile;

(iv) the requirement to raise invoices for rechargeable works more promptly.

The meeting ended at 6.37 pm.

Subject:	**QUARTERLY INTERNAL AUDIT UPDATE REPORT**
Meeting and Date:	**Governance Committee – 7th December 2017**
Report of:	**Christine Parker – Head of Audit Partnership**
Decision Type:	**Non-key**
Classification:	**Unrestricted**
Purpose of the report:	This report includes the summary of the work completed by the East Kent Audit Partnership since the last Governance Committee meeting, together with details of the performance of the EKAP to the 30th September 2017
Recommendation:	That Members note the update report.

1. **Summary**

This report includes the summary of the work completed by the East Kent Audit Partnership since the last Governance Committee meeting.

2. **Introduction and Background**

2.1 For each Audit review, management has agreed a report, and where appropriate, an Action Plan detailing proposed actions and implementation dates relating to each recommendation. Reports continue to be issued in full to each member of Corporate Management Team, as well as an appropriate manager for the service reviewed.

2.2 Follow-up reviews are performed at an appropriate time, according to the status of the recommendation, timescales for implementation of any agreed actions and the risk to the Council.

2.3 An Assurance Statement is given to each area reviewed. The assurance statements are linked to the potential level of risk, as currently portrayed in the Council’s risk assessment process. The assurance rating given may be Substantial, Reasonable, Limited or No assurance.

2.4 Those services with either Limited or No Assurance are monitored, and brought back to Committee until a subsequent review shows sufficient improvement has been made to raise the level of Assurance to either Reasonable or Substantial. A list of those services currently with such levels of assurance is attached as Annex 2 to the EKAP report.

2.5 The purpose of the Council’s Governance Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent review of the Authority’s financial and non-financial performance to the extent that it affects the Authority’s exposure to risk and weakens the control environment, and to oversee the financial reporting process.

2.6 To assist the Committee meet its terms of reference with regard to the internal control environment an update report is regularly produced on the work of internal audit. The purpose of this report is to detail the summary findings of completed audit reports and follow-up reviews since the report submitted to the last meeting of this Committee.

SUMMARY OF WORK

2.7 There have been eight Internal Audit reports that have been completed during the period, of which two reviews were classified as providing Substantial assurance, four as Reasonable Assurance, and two with a split assurance level of Reasonable/ Limited.

2.8 In addition four follow-up reviews have been completed during the period, which are detailed in section 3 of the quarterly update report.

2.9 For the six-month period to 30th September 2017, 119.86 chargeable days were delivered against the planned target of 260.95, which equates to 46% plan completion.

3 **Resource Implications**

3.1 There are no additional financial implications arising directly from this report. The costs of the audit work will be met from the Financial Services 2017-18 revenue budgets.

3.2 The financial performance of the EKAP is currently on target at the present time.

Appendices

Appendix 1 – Internal Audit update report from the Head of the East Kent Audit Partnership.

Background Papers

- Internal Audit Annual Plan 2017-18 - Previously presented to and approved at the 6th April 2017 Governance Committee meeting.
- Internal Audit working papers - Held by the East Kent Audit Partnership.

Contact Officer: Christine Parker, Head of Audit Partnership

EAST KENT
DOVER • SHEPWAY • THANET • CANTERBURY
AUDIT PARTNERSHIP

INTERNAL AUDIT UPDATE REPORT FROM THE HEAD OF THE EAST KENT AUDIT PARTNERSHIP.

1. INTRODUCTION AND BACKGROUND

1.1 This report includes the summary of the work completed by the East Kent Audit Partnership since the last Governance Committee meeting, together with details of the performance of the EKAP to the 30th September 2017.

2. SUMMARY OF REPORTS:

Service / Topic		Assurance level	No. of Recs.	
2.1	EK Services – Business Rates	Substantial	C H M L	0 1 2 0
2.2	Port Health	Substantial	C H M L	0 0 0 0
2.3	Right to Buy	Reasonable	C H M L	0 0 0 0
2.4	Environmental Protection – Contaminated Land, Pollution, Air & Water Quality	Reasonable	C H M L	0 1 1 2
2.5	EK Services – ICT Software Licensing	Reasonable	C H M L	0 2 6 0
2.6	East Kent Housing – Performance Indicator Data Quality	Reasonable	C H M L	0 0 1 2
2.7	Inward Investment	Reasonable/Limited	C H M L	0 0 0 1
2.8	Land Charges	Reasonable/Limited	C H M L	0 1 2 0

2.1 EK Services Business Rates – Substantial Assurance

2.1.1 Audit Scope

To ensure that the processes and procedures established by EK Services are sufficient to provide the level of service required by the partner councils and incorporate relevant internal controls regarding the administration of Business Rates, especially the recording of accounts, valuation, billing and monitoring of accounts including changes in responsible person.

2.1.2 Summary of Findings

Business rates are calculated using the rateable value of premises (set by the Valuation Office Agency) and the business rates multipliers as set by central government. East Kent Services as the collection agent for Canterbury City Council and Dover and Thanet District Councils collected over £125 million pounds in total (99% Collection Rate) for 2016/17 for the three authorities.

The primary findings giving rise to the Substantial Assurance opinion in this area are as follows:

- A good collection rate of 99% for business rates reflects the hard work that the officers undertake to ensure actions are carried out in a timely manner and that revised bills are issued and monies are collected.
- Established and well documented testing schedules are in place when the CIVICA system is updated or year-end / year-end processes have to be carried out.

Scope for improvement was however identified in the following areas:

- Processes need to be put in place to ensure that the Business Rates staff are kept up to date with information, legislation etc. on a weekly basis when the Business Rates Team Leader goes on maternity leave.
- The Discretionary Relief Check Sheet should be revised to include a sign off section that is completed both by the Officer completing the application and the authorising officer thus giving a complete audit trail of the authorisation process that has been carried.

2.2 Port Health - Substantial Assurance

2.2.1 Audit Scope

The audit will examine and evaluate the risks and controls established by management to ensure that all port health activities are suitably controlled:.

2.2.2 Summary of Findings

The port of Dover was made a designated point of entry on 13 October 2014. This means it has access to appropriate control facilities and is approved to handle some or all of the food and feed products as per Annex 1 of Regulation 669/2009 (as amended).

The public protection officers receive notifications of FNAO (food not of animal origin) consignments due at the port and check these on a profiled risk basis. Public protection services at the port have generated the following income:

Port Health Income	Actual £	Budget £
2015/16	52,296	30,560
2016/17	26,698	47,160
2017/18 (at 12/10/2017)	18,844	27,730

The primary findings giving rise to the Substantial Assurance opinion in this area are as follows:

- Up to date information and legislation is available to the public protection officers via the Food Standards Agency (FSA) website; alerts are also received from the FSA;
- Many procedure documents are in place and have been recently reviewed;
- Documents and checks are recorded on M3 and work is promptly invoiced; and
- Fixed food premises at the port are inspected as scheduled.

2.3 Right to Buy - Reasonable Assurance

2.3.1 Audit Scope

To examine and evaluate the whole system of controls, both financial and otherwise, established by management in order to carry on the business of the enterprise in regard to Right to Buy applications in an orderly and efficient manner, ensure adherence to management policies, safeguard the Authority's assets and secure as far as possible the completeness and accuracy of its accounting records.

2.3.2 Summary of Findings

East Kent Housing (EKH) provides housing management services for Canterbury, Dover, Shepway and Thanet councils. This includes processing right to buy applications from council tenants. EKH manage the full process for Dover, Shepway and Thanet. Until recently EKH only processed any Canterbury applications at their initial stage, after which Canterbury took over the processing of the application. Following agreement by Canterbury, EKH took on responsibility for the full right to buy application process from 1st September 2017

Council tenants have the right to purchase their home under prescribed criteria and the Government introduced increased discounts to tenants wishing to buy their home under the right to buy (RTB) scheme almost four years ago. This has made the scheme popular with tenants and potential fraudsters alike.

In 2016/2017 a total of 105 homes were sold in the East Kent district.

Council	Total applications received (includes live applications at year end)	Total applications withdrawn	Total Properties sold	Selling price net of discounts	Discounts allowed
Canterbury	62	38	25	£3,013,000	£1,819,000

City Council					
Dover District Council	59	15	37	£2,606,000	£2,438,000
Shepway District Council	37	18	21	£1,740,775	£1,442,725
Thanet District Council	46	7	22	£1,622,440	£1,467,310

There are no published figures yet for the councils for 2016/2017 in respect of investigated social housing fraud, these statistics do not just include right to buy fraud but also include other tenancy fraud such as tenancy fraud i.e. subletting. The exception to this is Shepway who have disclosed on their website that no social housing fraud had been investigated in 2016/2017. This is not to say that for each council action taken by EKH officers in validating a right to buy application has not prevented fraud; it means that the sale did not go ahead, often as the application was declined in the first instance due to checks made.

The primary findings giving rise to the Reasonable Assurance opinion in this area are as follows:

- Guidance is available to tenants via the EKH Website, including links to relevant government guidance.
- Tenancy agreements inform tenants of their right to buy their council property subject to specific criterion being met.
- Applications are being dealt with within prescribed timescales.
- Appropriate verification and qualification checks are in place.
- Property sale prices are being correctly calculated based on current data.
- Taking into account the resources available appropriate checks are being made to prevent and detect fraud.

Scope for improvement was however identified in the following areas:

- EKH should make use of county wide tenancy fraud resources available by regular attendance at the newly formed Kent Tenancy Fraud Forum.
- All pages from completed documents, including those where no data has been recorded, should be scanned and retained as an omission of information may be significant as the information provided in the event of future legal action being required.

2.4 Environmental Protection; Contaminated Land, Pollution, Air & Water Quality – Reasonable Assurance

2.4.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established by the Council in the following areas of environmental protection:

- Air Quality Management and Air Quality Monitoring;
- Contaminated land;
- Polluting Industrial Processes (Pollution prevention and control regime); and
- Drinking Water.

2.4.2 Summary of Findings

The primary aim of the service is to facilitate acceptable standards for those living, working or visiting the district in respect of air, land and water quality. The Regulatory Service function plays a key role in fulfilling the Council's statutory duties in relation to Air Quality Management, Contaminated Land and Drinking and Bathing Water Quality. The main pieces of legislation and regulation include the Environmental Act 1990 and 1995, the Environmental Permitting (England & Wales) Regulations 2016 and the Private Water Supplies Regulations 2016. The area under review is not directly linked to any corporate risks or objectives but as a support function contributes to all of them.

The primary findings giving rise to the Reasonable Assurance opinion in this area are as follows:

- Compliance with regulations was evidenced during the course of the audit in relation to Air Quality, Private Water Supplies and Environmental Permitting;
- Processes and procedures were working effectively to help the department achieve its objectives set out in the Regulatory Services Business Plan;
- Risk assessments and inspection routines were well documented and working effectively; and
- All records were held in compliance with the Data Protection Act.

Scope for improvement was however identified in the following areas:

- A requirement to formally re-introduce an up to date Contaminated Land Strategy which is out of date;
- One private water supply requires a risk assessment to be undertaken and then added to the private water supply register;
- A number of lower level administrative elements require some attention i.e. website updates and invoicing discrepancies..

2.5 EK Services ICT Software Licensing - Reasonable Assurance

2.5.1 Audit Scope

To ensure that the procedures and internal controls established by EK Services are sufficient to provide an effective, efficient, secure and economical ICT service to the three partner authorities of Canterbury CC, Dover DC and Thanet DC. An important aspect of this being the administration of software licencing of ICT applications, on behalf of the partners.

2.5.2 Summary of Findings

Software Licensing is a complicated and difficult area to manage and control particularly across a shared service because there is always a risk in gaps of responsibility in respect of good software license management. There are approximately 100 back office ICT systems that are not managed or controlled by EK Services, therefore the management of licenses is also not under their control. Two of the major back office software packages that are managed and controlled by EK Services are Adobe, Microsoft Office and Google Suite.

EK Services are in the final stages of rolling out 'TOP desk' which is a helpdesk and facilities management software package used to manage and integrate IT functions and processes. The product includes a module for asset management (including a Software Asset Management Programme - SAM) and is due to be rolled out later this year. This functionality will eventually help EK Services and each Council identify, control, monitor and manage license numbers across the network. A large focus of this audit has therefore been on project governance, project controls, risk management and then the routine internal controls that need to be embedded once the SAM module is in place.

Management can place Reasonable Assurance on the systems of internal control in relation to the management and monitoring of Software Licenses in operation. This opinion is based on the limited scope of testing that could be undertaken without the assistance of the SAM module.

The primary findings giving rise to the Reasonable Assurance opinion in this area are as follows:-

- No breach of license conditions was detected during testing;
- The Expression of Interest Process (EOI) is an effective control which helps prevent software from being purchased or installed without high level approval from a senior officer from within a Council;
- All devices across the network are set up to prevent software from being installed without administrator authorisation; and
- Sophos antivirus scanning ensures ICT are notified when certain types of software are detected.

Scope for improvement was however identified in the following areas:

- The Software Asset Management system has not yet been rolled out which will detect and help manage software and software licenses;
- There were some instances where software controlled by administrators with individual councils did not have access to the licensing agreement or thought that responsibility lay elsewhere;
- Roles and Responsibilities require re-assessment and re-evaluation to ensure there are no gaps.

2.6 East Kent Housing Performance Indicator Data Quality – Reasonable Assurance

2.6.1 Audit Scope

Assess the methodology of the collection and measurement of performance indicators particularly where data is subject to manual intervention and manipulation to calculate and provide assurance in this regard and in respect of any reporting information that has been adjusted. There is a desire to be able to compare apples with apples once the new single system is in place, so challenging (and fully understanding) the indicators now, is important.

2.6.2 Summary of Findings

There are in total 35 individual performance indicators in use by East Kent Housing (EKH). EKH record this performance information on a monthly basis and produce a selection of PI data in a formal quarterly report for debate at its management team. The report is useful for recognising achievement, addressing any issues and driving improvement.

The formal quarterly report is issued to the partner councils in accordance with their individual requirements and timetable deadlines.
The primary findings giving rise to the Reasonable Assurance opinion in this area are as follows:

- PIs are agreed, recorded, monitored, interpreted and challenged;
- The PI reports are submitted to partner councils within the agreed deadlines;
- PIs are checked where possible before being issued to clients, and;
- 14 PIs were tested; 96.3% (52/54) of the data was verified as correct (including PIs which are subject to manual intervention and manipulation); the maximum variance was 1.5% and did not change the status of the PI.

Scope for improvement was however identified in the following areas:

- Where there is not enough time to check the quarterly report, consider sending it out under the condition that data is provisional and should there be any significant revisions, the councils will be notified;
- If the Single System is for any reason unable to accommodate complaints recording, complaints should be recorded directly to Covalent,
- Once the new single system has been implemented, the method of calculating some PIs were need to be reviewed; and;
- All workings should be consistently recorded.

2.7 Inward Investment – Reasonable/Limited Assurance:

2.7.1 Audit Scope

To review the Council's approach and success in attracting and managing inward investment (including commercial and residential developments; and strategic transportation infrastructure solutions) that support specific projects and the economic regeneration of the district and supports Corporate priority No 1.

2.7.2 Summary of Findings

A review of Inward Investment at Dover District Council was undertaken as part of East Kent's Audit Partnership's 2016/17 Audit Plan.

In 2008 the Government designated Dover as a National Growth Point and a Regional Spatial Strategy for the South East of England set out a strategic planning framework for the whole district. The Council adopted and published a Local Development Framework (LDF) in February 2010. The LDF sets out the Council's proposed course for the next two decades. It sets out the need for change, the aims and objectives of the strategy, strategic allocations and the delivery framework. There were four development opportunities that individually and collectively were of such scale and significance that the Council saw them as central to the success of the Core Strategy. These were:

- Dover Waterfront
- Mid Town, Dover
- Former Connaught Barracks complex, Dover
- The managed expansion of Whitfield, Dover.

Dover Waterfront and Mid Town were seen as potential to improve shopping, leisure, community and educational provision and generate new employment opportunities. Former Connaught Barracks and Whitfield were seen as creating new housing offerings in the district.

The primary findings giving rise to the split assurance opinion in this area are as follows, The Council is making good progress with its inward investment plans and controls in place are generally operating effectively, leading to the Reasonable assurance conclusion, but some expected controls were missing and this leads us to a conclusion of Limited assurance on the design of the controls.

Scope for improvement was therefore identified in the following areas

- the inward investment portfolio is managed by a single manager without a succession plan (high priority)
- there are no formal process in place to record actions and agreements for each potential investment opportunity (high priority).
- a set of established procedures, are currently absent
- five medium priority recommendations, have also been raised for example project records are not maintained to document the progress of projects, which would also help ensure that other Council staff could step in to support the development / investment opportunity as required.

2.8 Land Charges – Reasonable/Limited Assurance

2.8.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the Council maintains an efficient and effective Land Charges function in accordance with prevailing legislation.

2.8.2 Summary of Findings

The Council has a statutory duty under the Local Land Charges Act 1975 to maintain an accurate and up-to-date Register of Local Land Charges affecting land and property. The two main functions of the Land Charges Service are to maintain the register and to provide search information for paying customers. The income level for 2016/17 (£229,526) shows a 5% drop against the income received for 2015/16 (£241,516).

Management can place Reasonable Assurance on the system of internal controls in operation for the day to day processing of searches and Limited Assurance on data capturing for both the new local land charges system and for when the local land charges register is handed over to the Land Registry.

The primary findings giving rise to the Reasonable Assurance opinion in this area are as follows:

- Processes and Officer knowledge of the district are in place to ensure that searches are processed within 10 working days. (8.04 average days for 2016/17).
- Entries to update the local land charges register with current information are carried out efficiently with documentation to support the amendment being in place.
- Income monitoring is carried on a monthly basis along with other service performance measures.

Scope for improvement, giving rise to the Limited Assurance opinion, was however identified in the following areas:

- The local land charges paper register is not up to date in respect of rural planning conditions and listed building curtilages. With the land registry due to take over the local land charges register at some point over the next 5 years there are concerns that the register is not electronic and not up to date for transferring over to them. A meeting is to be held in July 2017 with the Land Registry to advise them of the current issues and how to move them forward.
- There is an issue as to who should be responsible for answering the questions on highways. Currently the information is being obtained by the Local Land Charges officers from the Kent County Council website but there is no guarantee that the information is up to date or correct. There is merit in considering referring these questions to Kent County Council (at a cost of £21 plus VAT per search) for them to answer thus passing the risk of providing inaccurate information on to them in case of future claims.
- The implementation of the new Uniform system for Planning and Land Charges will hopefully address the issue of the records held on the system as currently the records on Acolaide only relate to any properties that have had a planning application and their own land parcel reference number and not the gazateer information which is for all properties across the district.
- There is no evidence to support a cost neutral exercise having been carried out for several years on the Land Charges function for the setting of the fees and charges. This exercise therefore needs to be carried out to assist in setting the next financial year`s fees and charges.

3.0 FOLLOW UP OF AUDIT REPORT ACTION PLANS:

3.1 As part of the period’s work, four follow up reviews have been completed of those areas previously reported upon to ensure that the recommendations previously made have been implemented, and the internal control weaknesses leading to those recommendations have been mitigated. Those completed during the period under review are shown in the following table.

Service/ Topic		Original Assurance level	Revised Assurance level	Original Number of Recs		No of Recs Outstanding	
a)	Garden Waste & Recycling Income	Reasonable	Reasonable	C H M L	0 2 3 2	C H M L	0 1 0 0

Service/ Topic		Original Assurance level	Revised Assurance level	Original Number of Recs		No of Recs Outstanding	
b)	EK Services – Housing Benefit Payments	Substantial	Substantial	C H M L	0 0 0 1	C H M L	0 0 0 0
c)	EK Services – Customer Services	Substantial	Substantial	C H M L	0 0 1 3	C H M L	0 0 0 0
d)	EKH Tenancy & Estate Management	Substantial	Substantial	C H M L	0 5 6 3	C H M L	0 0 0 0

3.2 Details of each of the individual high priority recommendations outstanding after follow-up are included at Annex 1 and on the grounds that these recommendations have not been implemented by the dates originally agreed with management, they are now being escalated for the attention of the s.151 Officer and Members of the Governance Committee.

The purpose of escalating outstanding high-risk matters is to try to gain support for any additional resources (if required) to resolve the risk, or to ensure that risk acceptance or tolerance is approved at an appropriate level.

4.0 WORK-IN-PROGRESS:

4.1 During the period under review, work has also been undertaken on the following topics, which will be reported to this Committee at future meetings:, Officer Code of Conduct, Local Code of Corporate Governance, Scheme of Officer Delegations, External Funding Protocol, CCTV, and CSO Compliance.

5.0 CHANGES TO THE AGREED AUDIT PLAN:

5.1 The 2017-18 Audit plan was agreed by Members at the meeting of this Committee on 6th April 2017.

5.2 The Head of the Audit Partnership meets on a quarterly basis with the Section 151 Officer to discuss any amendments to the plan. Members of the Committee will be advised of any significant changes through these regular update reports. Minor amendments have been made to the plan during the course of the year as some high profile projects or high-risk areas have been requested to be prioritised at the expense of putting back or deferring to a future year some lower risk planned reviews. The detailed position regarding when resources have been applied and or changed are shown as Annex 3.

6.0 FRAUD AND CORRUPTION:

6.1 There were no other new or recently reported instances of suspected fraud or irregularity that required either additional audit resources or which warranted a revision of the audit plan at this point in time.

7.0 INTERNAL AUDIT PERFORMANCE

7.1 For the six-month period to 30th September 2017, 119.86 chargeable days were delivered against the planned target of 260.95, which equates to 46% plan completion.

7.2 The financial performance of the EKAP is currently on target at the present time.

7.3 As part of its commitment to continuous improvement and following discussions with the s.151 Officer Client Group, the EKAP has improved on the range of performance indicators it records and measures. The performance against each of these indicators is attached as Annex 4.

7.4 The EKAP introduced an electronic client satisfaction questionnaire, which is used across the partnership. The satisfaction questionnaires are sent out at the conclusion of each audit to receive feedback on the quality of the service. Current feedback arising from the customer satisfaction surveys is featured in the Balanced Scorecard attached as Annex 4.

.

Attachments

Annex 1	Summary of High priority recommendations outstanding after follow-up.
Annex 2	Summary of services with Limited / No Assurances
Annex 3	Progress to 30th September 2017 against the agreed 2017/18 Audit Plan.
Annex 4	EKAP Balanced Scorecard of Performance Indicators to 30th September 2017.
Annex 5	Assurance statements

SUMMARY OF HIGH PRIORITY RECOMMENDATIONS OUTSTANDING OR IN PROGRESS AFTER FOLLOW-UP – ANNEX 1		
Original Recommendation	**Agreed Management Action, Responsibility and Target Date**	**Manager's Comment on Progress Towards Implementation.**
Garden Waste & Recycling Income – October 2017:		
The Waste Services Manager should ensure that an independent regular reconciliation of the actual income received (as recorded on the Financial Management System) and the expected income (recorded as subscribers on M3) is undertaken and any discrepancies identified promptly investigated and resolved.	Agreed, as per the proposed recommendation. Reconciliation will be carried out during budget monitoring. **Proposed Completion Date** End of April 2017 **Responsibility** Waste Services Manager	Budget monitoring is carried out quarterly and this was not reconciled at the end of quarter 1, but is due to be completed at the end of quarter 2. **Outstanding.**

ANNEX 2

SERVICES GIVEN LIMITED / NO ASSURANCE LEVELS STILL TO BE REVIEWED			
Service	**Reported to Committee**	**Level of Assurance**	**Follow-up Action Due**
Performance Management	March 2017	Reasonable/Limited	Work-in-Progress
Land Charges	December 2017	Reasonable/Limited	Winter 2017

ANNEX 3

PROGRESS AGAINST THE AGREED 2017-18 AUDIT PLAN.

DOVER DISTRICT COUNCIL:

Review	Original Planned Days	Revised Planned Days	Actual days to 30-09-2017	Status and Assurance Level
FINANCIAL SYSTEMS:				
Car Parking & Enforcement	12	12	0.18	Work-in-Progress
Creditors & CIS	12	12	0.18	Work-in-Progress
External Funding Protocol	10	10	2.17	Work-in-Progress
Income	10	10	0.18	Work-in-Progress
GOVERNANCE RELATED:				
Officers' Code of Conduct	10	10	9.51	Work-in-Progress
Local Code of Corporate Governance	8	8	0.45	Work-in-Progress
Scheme of Officer Delegations	7	7	4.56	Finalised - Substantial
Project Management	10	10	2.27	Work-in-Progress
Corporate Advice/CMT	2	2	3.73	Work-in-Progress throughout 2017-18
s.151 Meetings and support	9	9	6.81	Work-in-Progress throughout 2017-18
Governance Committee Meetings and Reports	12	12	7.24	Work-in-Progress throughout 2017-18
2018-19 Audit Plan Preparation and Meetings	9	9	0.3	Quarter 4
CONTRACT RELATED:				
CSO Compliance	12	12	7.82	Work-in-Progress
Service Contract Monitoring	10	10	7.6	Work-in-Progress
SERVICE LEVEL:				
Safeguarding Return to KCC	1	0	0	Not Required
Coastal Management	10	10	0	Quarter 4
CCTV	10	10	1.16	Work-in-Progress
Port Health	10	10	5.33	Finalised - Substantial
Pollution, Contaminated Land, Air & Water Quality	10	10	10.07	Finalised - Reasonable
Health & Wellbeing	10	10	0	Quarter 4

Review	Original Planned Days	Revised Planned Days	Actual days to 30-09-2017	Status and Assurance Level
Grounds Maintenance	15	15	0	Quarter 4
Licensing	12	12	0.18	Quarter 4
Asset Management	15	15	0	Quarter 4
Phones, Mobiles & Utilities	8	8	0	Quarter 3
OTHER				
Liaison with External Auditors	1	1	0	Work-in-Progress throughout 2017-18
Follow-up Work	15	16	8.61	Work-in-Progress throughout 2017-18
FINALISATION OF 2016-17- AUDITS				
Homelessness	5	5	6.06	Finalised - Substantial
Planning Applications, Income & s106 Agreements			3.51	Finalised – Substantial/Reasonable
Land Charges			8.42	Finalised – Reasonable/Limited
Anti-Fraud & Corruption			4.83	Finalised - Reasonable
Inward Investment			14.23	Finalised – Reasonable/Limited
Right to Buy			3.62	Finalised - Reasonable
Days under delivered in 2016-17	0	5.95	0	Completed
RESPONSIVE ASSURANCE:				
Sandwich Historical Boat Yard	0	0	0.84	Work-in-Progress
TOTAL	**255**	**260.95**	**119.86**	**46% as at 30th September 2017**

EAST KENT HOUSING LIMITED:

Review	Original Planned Days	Revised Planned Days	Actual days to 30-09-2017	Status and Assurance Level
Planned Work:				
CMT/Audit Sub Ctte/EA Liaison	4	4	1.8	Work-in-progress throughout 2017-18
Follow-up Reviews	4	4	.78	Work-in-progress throughout 2017-18
Finance Systems & ICT Controls	15	15	0	Quarter 4

Review	Original Planned Days	Revised Planned Days	Actual days to 30-09-2017	Status and Assurance Level
Data Protection & Information Management	12	12	0.18	Quarter 4
Leasehold Services	15	15	0	Quarter 4
Fire Safety	15	15	14.46	Work-in-Progress
Safeguarding Children & Vulnerable Groups	10	10	10.55	Work-in-Progress
Anti-Fraud & Corruption	10	10	0	Work-in-Progress
Risk Management	10	10	0.18	Work-in-Progress
Performance Management	5	5	0	Quarter 4
Complaints Monitoring	10	10	0.18	Work-in-Progress
Single System – Post Implementation Review	10	10	0	Quarter 4
Property Services Improvement Plan	20	20	0	Quarter 3/4
Days under delivered in 2016-17	0	7.84	0	Completed
Responsive Assurance:				
Performance Indicator Data Quality	0	0	8.62	Finalised - Reasonable
Total	**140**	**147.84**	**36.75**	**24.86% at 30-09-2017**

EK SERVICES:

Review	Original Planned Days	Revised Planned Days	Actual days to 30/09/2017	Status and Assurance Level
EKS Reviews;				
Housing Benefits Payments	15	16	15.51	Completed - Substantial
DDC / TDC HB Testing	20	20	11.10	Work-in-progress throughout 2017-18
Business Rates	20	20	10.10	Work-in-progress
Council Tax Reduction Scheme	15	15	0	Quarter 3
ICT – Data Management	15	15	0.17	Quarter 3
ICT – Procurement & Disposal	15	15	0	Quarter 4
EKHR Reviews;				
Payroll	15	15	0.07	Quarter 3

Review	Original Planned Days	Revised Planned Days	Actual days to 30/09/2017	Status and Assurance Level
Employee Allowances & Expenses	15	15	0	Quarter 3
Employee Health & Safety	15	0	0	Responsibility transferred
Other;				
Corporate/Committee	8	10	2.38	Ongoing
Follow up	7	12	6.02	Ongoing
Days under delivered in 2016-17	17.70	24.70		Completed as below
Finalisation of 2016/17 Audits:				
Housing Benefit Subsidy			7.92	Completed – Substantial
ICT Change controls			2.34	Completed – Substantial
ICT Software Licensing			3.45	Completed - Reasonable
EKHR – Payroll & BIK			7.33	Completed - Substantial
Total	**177.7**	**177.70**	**66.39**	**37% at 30/09/2017**

EAST KENT

DOVER • SHEPWAY • THANET • CANTERBURY

AUDIT PARTNERSHIP

ANNEX 4

BALANCED SCORECARD – QUARTER 2

INTERNAL PROCESSES PERSPECTIVE:	**2017-18 Actual**	**Target**	**FINANCIAL PERSPECTIVE:**	**2017-18 Actual**	**Original Budget**
	Quarter 2		**Reported Annually**		
Chargeable as % of available days	**83%**	**80%**	• **Cost per Audit Day**	**£**	**£309.77**
			• **Direct Costs**	**£**	**£385,970**
Chargeable days as % of planned days					
CCC	**54%**	**50%**	• **+ Indirect Costs (Recharges from Host)**	**£**	**£10,530**
DDC	**46%**	**50%**			
SDC	**40%**	**50%**			
TDC	**49%**	**50%**	• **- ‘Unplanned Income’**	**£**	**Zero**
EKS	**37%**	**50%**			
EKH	**25%**	**50%**	• **= Net EKAP cost (all Partners)**	**£**	**£396,500**
Overall	**43%**	**50%**			
Follow up/ Progress Reviews;					
• **Issued**	**34**	**-**			
• **Not yet due**	**21**	**-**			
• **Now due for Follow Up**	**18**	**-**			
Compliance with the Public Sector Internal Audit Standards (PSIAS) (see Annual Report for more details)	**Partial**	**Full**			

EAST KENT

DOVER • SHEPWAY • THANET • CANTERBURY

AUDIT PARTNERSHIP

ANNEX 4

BALANCED SCORECARD – QUARTER 2

CUSTOMER PERSPECTIVE:	**2017-18 Actual** **Quarter 2**	**Target**	**INNOVATION & LEARNING PERSPECTIVE:**	**2017-18 Actual** **Quarter 2**	**Target**
Number of Satisfaction Questionnaires Issued;	**31**		**Percentage of staff qualified to relevant technician level**	**75%**	**75%**
Number of completed questionnaires received back;	**16** **= 52%**		**Percentage of staff holding a relevant higher level qualification**	**38%**	**38%**
Percentage of Customers who felt that;			**Percentage of staff studying for a relevant professional qualification**	**14%**	**N/A**
• **Interviews were conducted in a professional manner**	**100%**	**100%**	**Number of days technical training per FTE**	**1.71**	**3.5**
• **The audit report was 'Good' or better**	**100%**	**100%**			
• **That the audit was worthwhile.**	**100%**	**100%**	**Percentage of staff meeting formal CPD requirements (post qualification)**	**38%**	**38%**

Definition of Audit Assurance Statements & Recommendation Priorities

Assurance Statements:

Substantial Assurance - From the testing completed during this review a sound system of control is currently being managed and achieved. All of the necessary, key controls of the system are in place. Any errors found were minor and not indicative of system faults. These may however result in a negligible level of risk to the achievement of the system objectives.

Reasonable Assurance - From the testing completed during this review most of the necessary controls of the system in place are managed and achieved. There is evidence of non-compliance with some of the key controls resulting in a marginal level of risk to the achievement of the system objectives. Scope for improvement has been identified, strengthening existing controls or recommending new controls.

Limited Assurance - From the testing completed during this review some of the necessary controls of the system are in place, managed and achieved. There is evidence of significant errors or non-compliance with many key controls not operating as intended resulting in a risk to the achievement of the system objectives. Scope for improvement has been identified, improving existing controls or recommending new controls.

No Assurance - From the testing completed during this review a substantial number of the necessary key controls of the system have been identified as absent or weak. There is evidence of substantial errors or non-compliance with many key controls leaving the system open to fundamental error or abuse. The requirement for urgent improvement has been identified, to improve existing controls or new controls should be introduced to reduce the critical risk.

Priority of Recommendations Definitions:

Critical – A finding which significantly impacts upon a corporate risk or seriously impairs the organisation's ability to achieve a corporate priority. Critical recommendations also relate to non-compliance with significant pieces of legislation which the organisation is required to adhere to and which could result in a financial penalty or prosecution. Such recommendations are likely to require immediate remedial action and are actions the Council must take without delay.

High – A finding which significantly impacts upon the operational service objective of the area under review. This would also normally be the priority assigned to recommendations relating to the (actual or potential) breach of a less prominent legal responsibility or significant internal policies; unless the consequences of non-compliance are severe. High priority recommendations are likely to require remedial action at the next available opportunity or as soon as is practical and are recommendations that the Council must take.

Medium – A finding where the Council is in (actual or potential) breach of - or where there is a weakness within - its own policies, procedures or internal control measures, but which does not directly impact upon a strategic risk, key priority, or the operational service objective of the area under review. Medium priority recommendations are likely to require remedial action within three to six months and are actions which the Council should take.

Low – A finding where there is little if any risk to the Council or the recommendation is of a business efficiency nature and is therefore advisory in nature. Low priority recommendations are suggested for implementation within six to nine months and generally describe actions the Council could take.

Subject:	**TREASURY MANAGEMENT QUARTER TWO REPORT 2017/18**
Meeting and Date:	**Governance – 7th December 2017** **Council – 31st January 2018**
Report of:	**Mike Davis – Director of Finance, Housing & Community**
Portfolio Holder:	**Councillor Mike Connolly – Portfolio Holder for Corporate Resources and Performance**
Decision Type:	**Non-Executive**
Classification:	**Unrestricted**
Purpose of the report:	To provide details of the Council's treasury management for the quarter ended 30th September 2017 (Q2) and an update of activity to date.
Recommendation:	That the report is received

1. **Summary**

1.1 The Council's investment return for the six-month period to September was 0.53%, which outperformed the benchmark[1] by 0.32%. Actual interest and dividends income to the end of September was £188k, which is a favourable variance compared with the year-to-date (YTD) budget of £153k. The Council's projected investment return for 2017/18 is £398k, which is £93k better than the original budget estimate of £305k. This improvement is due to the estimated dividend from new investments in the CCLA Property Fund, with an actual dividend received for the quarter of £60k.

1.2 As of 1st April 2017, the Council has appointed Arlingclose Limited as its treasury advisors, and they have proposed various investment options that would help to improve returns and spread risk. At the Investment Advisory Group on 4th October the group considered the pooled investment funds suggested by Arlingclose. It was proposed to deposit up to £28m into a number of these funds to improve income. £6m has already been placed in the CCLA property fund, with a return of 4.57%.

1.3 However, a new International Financial Reporting Standard (IFRS9) is about to be implemented, which could force us to charge unrealised gains or losses on the capital value of such funds to the General Fund revenue budget each year, even if we propose to hold the funds for a longer period of time and avoid selling if the capital value is lower than the price paid. It is often normal to pay a premium on purchasing such funds, as with the CCLA Property Fund, to take account of stamp duty and other costs but, over time, the capital value is expected to rise, based on past trends, so that capital losses are unlikely in the longer term. However, we currently recognise the dividend returns, paid each year, and credit these returns to our budget. We are awaiting further guidance from CIPFA as to whether there will be any statutory override for local authorities and will brief members again prior to going ahead, setting out any options to mitigate the impact of potential unrealised losses.

[1] The "benchmark" is the interest rate against which performance is assessed. DDC use the London Inter-Bank Bid Rate or LIBID, as its benchmark.

1.4 The forecast return of £398k for the full financial year does not currently allow for additional income from further investments in pooled funds, other than the £6m already invested in the CCLA property fund.

1.5 The Council remained within its Treasury Management and Prudential Code guidelines during the period.

2. Introduction and Background

2.1 CIPFA (the Chartered Institute of Public Finance and Accountancy) issued the revised Code of Practice for Treasury Management in November 2011; it recommends that members should be updated on treasury management activities at least twice a year, but preferably quarterly. This report therefore ensures this council is implementing best practice in accordance with the Code.

2.2 Council adopted the 2017/18 Treasury Management Strategy (TMS) on 1st March 2017 as part of the 2017/18 Budget and Medium Term Financial Plan.

2.3 In order to comply with the CIPFA code referred to above, a brief summary is provided below, and Appendix 1 contains a full report from the Council's Treasury Management Advisors, Arlingclose.

2.4 Members are asked to note that in order to minimise the resource requirements in producing this report, Arlingclose's report has been taken verbatim. Treasury advisors generally use a more journalistic style than is used by our officers, but in order to avoid changing the meaning or sense of Arlingclose's work, this has not been edited out.

2.5 As at 30th September 2017, the Council's investment portfolio totalled £57.8m (see Appendix 2). However, some of this is shorter term, as significant funds sitting in the Dover Regeneration and Economic Development Reserve are earmarked for spending during 2017/18 and 2018/19 on the new Dover leisure centre and other approved capital projects. After these approved commitments, there should be £20m - £25m underlying core funds available for longer term investment, while the remainder of funds will need to be kept in shorter term instruments and bank accounts for cash-flow requirements and future capital projects (subject to project appraisals).

2.6 Whilst the Council has been reviewing the alternative investment options, any fixed deposits that matured were not reinvested but kept in call accounts until required, apart from the £5m deposit with Suffolk County Council which was rolled over for an extra month and a fixed term deposit of £5m that was made with Telford and Welkin Council at the end of August for three months. This was done due to portfolio balances temporarily reaching £72m.

3. Annual investment strategy

3.1 The investment portfolio, as at the end of September 2017, is attached at Appendix 2. Total balances held for investment and cash-flow purposes were £57.8m, rising to £58.0m at the end of October (see Appendix 4). The increase reflects normal cash-flow fluctuations arising from the timing of 'major preceptor' payments, which are made over twelve months, while the Council Tax receipts that fund them typically come in over the ten months to January and then decline.

3.2 Since the end of the September quarter, the Suffolk County Council deposit has matured and has not been reinvested.

3.3 The Bank of England raised the base rate from 0.25% to 0.5% on the 2nd November and this has resulted in a slight improvement in the returns on the money market funds and NatWest SIBA account.

3.4 All other funds are currently being held in call accounts, and the process of opening new investment fund accounts is progressing, but without yet committing to making further deposits, pending a member briefing on the IFRS9 issues in (1.3) above.

3.5 Cash-flow funds decreased from £18.5m at 30th June 2017 to £16.9m at 30th September 2017 (see Appendix 2), and then increased to £22.3m by the end of October 2017 (see Appendix 4), although this will reduce due to approved capital spend in the coming weeks. The movement in cash-flow funds in the quarter (and since) reflects increases for deposits maturing and not being re-invested in term deposits or longer term instruments, less decreases for the purchase of an investment property (£16m in September) and the second tranche of the investment with CCLA Property Fund (£3m in July).

3.6 The Gilt holding of £1.9 million transferred to King and Shaxson following Investec's withdrawal from the segregated funds market will be held until its maturity date of July 2018

4. Economic background

4.1 The report attached (Appendix 1) contains information up to the end of September 2017; since then we have received an update from Arlingclose, included below. Please note that any of their references to quarters are based on calendar years:

Introduction

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

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

UK Data

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

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

4.6 *Consumer price inflation reached 3.0% in September 2017 as the post-referendum devaluation of sterling continued to feed through to imports. Unemployment continued to fall and the Bank of England's Monetary Policy Committee judged that the extent of spare capacity in the economy seemed limited and the pace at which the economy can grow without generating inflationary pressure had fallen over recent years. With its inflation-control mandate in mind, the Bank of England's Monetary Policy Committee raised official interest rates to 0.5% in November 2017.*

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

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

US Data

4.9 *The US economy is performing well and the Federal Reserve is raising interest rates in regular steps to remove some of the emergency monetary stimulus it has provided for the past decade. The European Central Bank is yet to raise rates, but has started to taper its quantitative easing programme, signalling some confidence in the Eurozone economy.*

Global

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

4.11 *Geo-political risks remains elevated and helps to anchor safe-haven flows into the UK government.*

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

Brexit

4.13 *The domestic economy has remained relatively robust since the surprise outcome of the 2016 referendum, but there are indications that uncertainty over the future is now weighing on growth. Transitional arrangements may prevent a cliff-edge, but will also extend the period of uncertainty for several years. Economic growth is therefore forecast to remain sluggish throughout 2018/19.*

Interest Rates & Financial Indicators

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

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

Regulatory

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

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

5. Net Borrowing

5.1 The Council's borrowing portfolio is attached at Appendix 3. No new borrowing was undertaken during the quarter.

6. Debt Rescheduling

6.1 At this time it is not of benefit to the Council to consider rescheduling of its long-term debt, as advised by Arlingclose.

7. Compliance with Treasury and Prudential Limits

7.1 The Council has operated within the treasury limits and Prudential Indicators, and in compliance with the Council's Treasury Management Practices.

8. Corporate Implications

8.1 Comment from the Section 151 Officer: Finance have no further comments to make. (SG)

8.2 Comment from the Solicitor to the Council: The Solicitor to the Council has been consulted in the preparation of this report and has no further comments to make.

8.3 Comment from the Equalities Officer: This report does not specifically highlight any equalities implications, however in discharging their responsibilities members are requires to comply with the public sector duty as set out in section 149 of the Equality Act 2010 http://www.legislation.gov.uk/ukpga/2010/15

Appendices

Appendix 1 – Arlingclose Treasury Management Report for Quarter Two

Appendix 2 – Investment portfolio as at 30 September 2017

Appendix 3 – Borrowing portfolio as at 30 September 2017

Appendix 4 – Investment portfolio as at 31 October 2017

Background Papers

Medium Term Financial Plan 2017/18 – 2020/21

Revised 2017/18 Treasury Management Strategy (Council 19th July 2017)

Contact Officer: Stuart Groom, extension 2072

Date: 24th November 2017

Treasury Management Report Q2 2017/18

Introduction

In March 2012 the Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports.

The Authority's treasury management strategy for 2017/18 was approved at a meeting of the Authority on 1 March 2017. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

External Context

Economic backdrop: Commodity prices fluctuated over the period with oil falling below $45 a barrel before inching back up to $58 a barrel. UK Consumer Price Inflation (CPI) index rose with the data print for August showing CPI at 2.9%, its highest since June 2013 as the fall in the value of sterling following the June 2016 referendum result continued to feed through into higher import prices. The new inflation measure CPIH, which includes owner occupiers' housing costs, was at 2.7%.

The unemployment rate fell to 4.3%, its lowest since May 1975, but the squeeze on consumers intensified as average earnings grew at 2.5%, below the rate of inflation. Economic activity expanded at a much slower pace as evidenced by Q1 and Q2 GDP growth of 0.2% and 0.3% respectively. With the dominant services sector accounting for 79% of GDP, the strength of consumer spending remains vital to growth, but with household savings falling and real wage growth negative, there are concerns that these will be a constraint on economic activity in the second half of calendar 2017.

The Bank of England made no change to monetary policy at its meetings in the first half of the financial year. The vote to keep Bank Rate at 0.25% narrowed to 5-3 in June highlighting that some MPC members were more concerned about rising inflation than the risks to growth. Although at September's meeting the Committee voted 7-2 in favour of keeping Bank Rate unchanged, the MPC changed their rhetoric, implying a rise in Bank Rate in "the coming months". The Council's treasury advisor Arlingclose is not convinced the UK's economic outlook justifies such a move at this stage, but the Bank's interpretation of the data seems to have shifted.

In contrast, near-term global growth prospects improved. The US Federal Reserve increased its target range of official interest rates in June for the second time in 2017 by 25bps (basis points) to between 1% and 1.25% and, despite US inflation hitting a soft patch with core CPI at 1.7%, a further similar increase is expected in its December 2017 meeting. The Fed also announced that it would be starting a reversal of its vast Quantitative Easing programme and reduce the $4.2 trillion of bonds it acquired by initially cutting the amount it reinvests by $10bn a month.

Geopolitical tensions escalated in August as the US and North Korea exchanged escalating verbal threats over reports about enhancements in North Korea's missile programme. The provocation from both sides helped wipe off nearly $1 trillion from global equity markets but benefited safe-haven assets such as gold, the US dollar and the Japanese yen. Tensions remained high, with North Korea's threat to fire missiles towards the US naval base in Guam, its recent missile tests over Japan and a further testing of its latent nuclear capabilities.

Prime Minister Theresa May called an unscheduled General Election in June, to resolve uncertainty but the surprise result has led to a minority Conservative government in coalition with the Democratic Unionist Party. This clearly results in an enhanced level of political uncertainty. Although the potential for a so-called hard Brexit is diminished, lack of clarity over future trading partnerships, in particular future customs agreements with the rest of the EU block, is denting business sentiment and investment. The reaction from the markets on the UK election's outcome was fairly muted, business confidence now hinges on the progress (or not) on Brexit negotiations, the ultimate 'divorce bill' for the exit and whether new trade treaties and customs arrangements are successfully concluded to the UK's benefit.

In the face of a struggling economy and Brexit-related uncertainty, Arlingclose expects the Bank of England to take only a very measured approach to any monetary policy tightening, any increase will be gradual and limited as the interest rate backdrop will have to provide substantial support to the UK economy through the Brexit transition.

Financial markets: Gilt yields displayed significant volatility over the six-month period with the appearing change in sentiment in the Bank of England's outlook for interest rates, the push-pull from expectations of tapering of Quantitative Easing (QE) in the US and Europe and from geopolitical tensions, which also had an impact. The yield on the 5-year gilts fell to 0.35% in mid-June, but then rose to 0.80% by the end of September. The 10-year gilts similarly rose from their lows of 0.93% to 1.38% at the end of the quarter, and those on 20-year gilts from 1.62% to 1.94%.

The FTSE 100 nevertheless powered away reaching a record high of 7548 in May but dropped back to 7377 at the end of September. Money markets rates have remained low: 1-month, 3-month and 12-month LIBID rates have averaged 0.25%, 0.30% and 0.65% over the period from January to 21st September.

Credit background: UK bank credit default swaps continued their downward trend, reaching three-year lows by the end of June. Bank share prices have not moved in any particular pattern.

There were a few credit rating changes during the quarter. The significant change was the downgrade by Moody's to the UK sovereign rating in September from Aa1 to Aa2 which resulted in subsequent downgrades to sub-sovereign entities including local authorities. Moody's downgraded Standard Chartered Bank's long-term rating to A1 from Aa3 on the expectation that the bank's profitability will be lower following management's efforts to de-risk their balance sheet. The agency also affirmed Royal Bank of Scotland's and NatWest's long-term ratings at Baa1, placed Lloyds Bank's A1 rating on review for upgrade, revised the outlook of Santander UK plc, and Nationwide and Coventry building societies from negative to stable but downgraded the long-term rating of Leeds BS from A2 to A3.

Ring-fencing, which requires the larger UK banks to separate their core retail banking activity from the rest of their business, is expected to be implemented within the next year. In May, following Arlingclose's advice, the Authority reduced the maximum duration of unsecured investments with Bank of Scotland, HSBC Bank and Lloyds Bank from 13 months to 6 months as until banks' new structures are finally determined and published, the different credit risks of the 'retail' and 'investment' banks cannot be known for certain.

The new EU regulations for Money Market Funds were finally approved and published in July and existing funds will have to be compliant by no later than 21st January 2019. The key features include Low Volatility NAV (LVNAV) Money Market Funds which will be permitted to maintain a constant dealing NAV, providing they meet strict new criteria and minimum liquidity requirements. MMFs will not be prohibited from having an external fund rating (as had been suggested in draft regulations). Arlingclose expects most of the short-term MMFs it recommends to convert to the LVNAV structure and awaits confirmation from each fund.

Regulatory Updates

MiFID II: Local authorities are currently treated by regulated financial services firms as professional clients who can "opt down" to be treated as retail clients instead. But from 3rd January 2018, as a result of the second Markets in Financial Instruments Directive (MiFID II), local authorities will be treated as retail clients who can "opt up" to be professional clients, providing that they meet certain criteria. Regulated financial services firms include banks, brokers, advisers, fund managers and custodians, but only where they are selling, arranging, advising or managing designated investments. In order to opt up to professional, the authority must have an investment balance of at least £10 million and the person authorised to make investment decisions on behalf of the authority must have at least one year's relevant professional experience. In addition, the firm must assess that that person has the expertise, experience and knowledge to make investment decisions and understand the risks involved.

The main additional protection for retail clients is a duty on the firm to ensure that the investment is "suitable" for the client. However, local authorities are not protected by the Financial Services Compensation Scheme nor are they eligible to complain to the Financial Ombudsman Service whether they are retail or professional clients. It is also likely that retail clients will face an increased cost and potentially restricted access to certain products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice. The Authority has declined to opt down to retail client status in the past as the costs were thought to outweigh the benefits.

The Authority meets the conditions to opt up to professional status and intends to do so in order to maintain their current MiFID status.

CIPFA Consultation on Prudential and Treasury Management Codes: In February 2017 CIPFA canvassed views on the relevance, adoption and practical application of the Treasury Management and Prudential Codes and after reviewing responses launched a further consultation on changes to the codes in August with a deadline for responses of 30th September 2017.

The proposed changes to the Prudential Code include the production of a new high-level Capital Strategy report to full council which will cover the basics of the capital programme and treasury management. The prudential indicators for capital expenditure and the authorised borrowing limit would be included in this report but other indicators may be delegated to another committee. There are plans to drop certain prudential indicators, however local indicators are recommended for ring fenced funds (including the HRA) and for group accounts. Other proposed changes include applying the principles of the Code to subsidiaries.

Proposed changes to the Treasury Management Code include the potential for non-treasury investments such as commercial investments in properties in the definition of "investments" as well as loans made or shares brought for service purposes. Another proposed change is the inclusion of financial guarantees as instruments requiring risk management and addressed within the Treasury Management Strategy. Approval of the technical detail of the Treasury Management Strategy may be delegated to a committee rather than needing approval of full Council. There are also plans to drop or alter some of the current treasury management indicators.

CIPFA intends to publish the two revised Codes towards the end of 2017 for implementation in

2018/19, although CIPFA plans to put transitional arrangements in place for reports that are required to be approved before the start of the 2018/19 financial year. The Department of Communities and Local Government (DCLG) and CIPFA wish to have a more rigorous framework in place for the treatment of commercial investments as soon as is practical. It is understood that DCLG will be revising its Investment Guidance (and its MRP guidance) for local authorities in England; however there have been no discussions with the devolved administrations yet.

Local Context

On 31st March 2017, the Authority had net borrowing / investments of £25m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in table 1 below.

Table 1: Balance Sheet Summary

	31.3.17 Actual £000
General Fund CFR	15,266
HRA CFR	76,309
Total CFR	**91,575**
Less: Usable reserves	(60,833)
Less: Working capital	(5,430)
Net borrowing	**25,312**

* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt

The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position as at 30th September 2017 and the change over the period is show in table 2 below.

Table 2: Treasury Management Summary

	31.3.17 Balance £000	**Movement £000**	**30.9.17 Balance £000**	**30.9.17 Rate %**
Long-term borrowing Short-term borrowing	85,515 6,153	 (5,068)	85,515 1,085	
Total borrowing	**91,668**	**(5,068)**	**86,600**	**3.39%**
Short-term investments Cash and cash equivalents	55,704 10,652	14,867 (6,292)	40,837 16,944	
Total investments	**66,356**	**8,575**	**57,781**	**0.58**
Net borrowing	**(25,312)**	**(3,507)**	**(28,819)**	

Borrowing Strategy during the half year

At 30/9/2017 the Authority held £86.6m of loans, (a decrease of £5m on 31/3/2017), as part of its strategy for funding previous years' capital programmes. The 30th September 2017 borrowing position is show in table 3 below.

Table 3: Borrowing Position

	31.3.17 Balance £000	Movement £000	30.9.17 Balance £000	30.9.17 rate %
Public Works Loan Board	84,668	(1,068)	83,600	3.35
Banks (LOBO)	3,000		3,000	4.75
Local authorities (short-term)	4,000	(4,000)	0	n/a
Total borrowing	**91,668**	**(5,068)**	**86,600**	**3.39**

The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

The Authority continues to hold £3m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during quarter 2.

Investment Activity

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the first half of 2017/18 the Authority's investment balance ranged between £63.4 and £72.4 million due to timing differences between income and expenditure. The investment position during the half year is shown in table 4 below.

Table 4: Investment Position

	31.3.17 Balance £000	Movement £000	30.9.17 Balance £000	30.9.17 Rate %
Banks & building societies (unsecured)	51,919	(27,748)	24,171	0.36
Government (incl. local authorities)	4,910	14,500	19,410	0.72
Money Market Funds	9,527	(1,327)	8,200	0.17
Other Pooled Funds	0	6,000	6,000	4.37
Total investments	**66,356**	**8,575**	**57,781**	

Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Given the increasing risk and falling returns from short-term unsecured bank investments, the Authority has started to diversify into more secure and higher yielding asset classes. £6m that is available for longer-term investment was moved from bank and building society deposits into pooled property funds. The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in table 5 below.

Table 5: Investment Benchmarking

	Credit Score	**Credit Rating**	**Bail-in Exposure**	**WAM* (days)**	**Rate of Return**
31.03.2017	4.30	AA-	60%	47	0.61%
30.06.2017	4.26	AA-	65%	72	0.37%
30.09.2017	4.61	A+	63%	71	0.15%*
Similar LAs	**4.39**	**AA-**	**65%**	**108**	**1.43%**
All LAs	**4.44**	**AA-**	**64%**	**40**	**1.12%**

*incorporates capital return adjustment for property fund investment.

Performance Report

The Authority measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 6 below.

Table 6: Performance

	Forecast for Year £000	**Budget £000**	**Over/ (under)**	**Forecast %**	**Benchmark* %**	**Over/ (under)**
Interest Received	398	305	93	0.53	0.21	0.32
Interest Payable	2,953	2,953	0	3.39	3.39	0.00

*3 month LIBID rate as at 30.09.17

Actual interest and dividends income for the six-month period to September is £186k, which is better than the YTD budget of £153k, and has been achieved as a result of having a higher level of funds available for investment than budgeted, despite lower rates of return due to pressure on interest rates, as well as the first quarterly dividend from the £6m investment in the CCLA property fund (in £3m tranches on 30th June and 31st July) at a return of approximately 4.57% p.a. (£60k received). This investment is considered longer term (typically 5 – 10 years) and largely accounts for the improved forecast position for the full year.

Compliance Report

The Director of Finance is pleased to report that all treasury management activities undertaken during the first half of 2017/18 complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 7 below.

Table 7: Investment Limits

	Qtr to 30.9.17 Actual	2017/18 Limit	Complied
Any single organisation, except UK Government	£5m	£8m per bank	✓
Any group of funds under the same management	0	£16m per group	✓
Investments held in a broker's nominee account	0	£15m	✓
UK Central Government	£1.9m	Unlimited	✓
Pooled Investment funds	£6m	£10m per fund	✓
Unsecured investments with Building Societies	0	£8m	✓
Operating Bank	£19.8m	£20m	✓
Money Market Funds	£6.5m	£10m per fund	✓

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 8 below.

Table 8: Debt Limits

	30.9.17 Actual	2017/18 Operational Boundary	2017/18 Authorised Limit	Complied
Borrowing	£86.6m	£333m	£338.5m	✓

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

Treasury Management Indicators

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

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	30.9.17 Actual	2017/18 Target	Complied
Portfolio average credit score	4.61	6.0	✓

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing excluding deposits due back < 3 months.

	30.9.17 Actual	2017/18 Target	Complied
Total cash available within 3 months	£16.9m	£8m	✓

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of net principal borrowed was:

	30.9.17 Actual	2017/18 Limit	Complied
Upper limit on fixed interest rate exposure	£86.6m	£300m	✓
Upper limit on variable interest rate exposure	0	£90m	✓

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

Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	30.9.17 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	£1.1m	25%	0%	✓
12 months and within 24 months	£3.4m	50%	0%	✓
24 months and within 5 years	£7.2m	50%	0%	✓
5 years and within 10 years	£13.7m	100%	0%	✓
10 years and above	£61.2m	100%	0%	✓

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2017/18	2018/19	2019/20
Actual principal invested beyond year end	£1.9m	£1.9m	0
Limit on principal invested beyond year end	£30m	£30m	£30m
Complied	✓	✓	✓

Outlook for the remainder of 2017/18

The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. Both consumer and business confidence remain subdued. Household consumption growth, the driver of UK GDP growth, has softened following a contraction in real wages. Savings rates are at an all-time low and real earnings growth (i.e. after inflation) struggles in the face of higher inflation.

The Bank of England’s Monetary Policy Committee has changed its rhetoric, implying a rise in Bank Rate in "the coming months". Arlingclose is not convinced the UK’s economic outlook justifies such a move at this stage, but the Bank’s interpretation of the data seems to have shifted.

This decision is still very data dependant and Arlingclose is, for now, maintaining its central case for Bank Rate at 0.25% whilst introducing near-term upside risks to the forecast as shown below. Arlingclose’s central case is for gilt yields to remain broadly stable in the across the medium term, but there may be near term volatility due to shifts in interest rate expectations.

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Official Bank Rate													
Upside risk	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**
Downside risk	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25

In-house as at 30/09/17

APPENDIX 2

Organisation	Type of investment	Current rating	Issue Date	Maturity date	Market yield %	Book cost	Government Sovereign Debt rating	Options available
Held in Custody at Kings and Shaxon								
United Kingdom	Gilt		24/05/2013	22/07/2018	1.250	950,000		
United Kingdom	Gilt		11/06/2013	22/07/2018	1.250	960,000		
						1,910,000		
In-house Investments - Portfolio:								***Duration***
Suffolk County Council	Fixed term deposit		06/09/2017	06/10/2017	0.150	5,000,000	UK - Gov 'AA'	*91 days*
Telford and Wrekin Council	Fixed term deposit		31/08/2017	30/11/2017	0.250	5,000,000	UK - Gov 'AA'	*91 days*
Birmingham City Council	Fixed term deposit		28/04/2017	27/04/2018	0.700	7,500,000	UK - Gov 'AA'	*364 days*
HSBC (Evergreen)	Notice Savings Account	AA-/F1+/1	26/02/2016		0.277	7,538,343	UK - Gov 'AA'	*90 days notice required to withdraw funds*
Santander	Notice Savings Account	A/F1/2	02/04/2016		0.400	7,889,022	UK - Gov 'AA'	*95 days notice required to withdraw funds*
In-house investments - Long Term								
CCLA Property investment Fund			30/06/2017		4.360	3,000,000	UK - Gov 'AA'	*5 Years +*
CCLA Property investment Fund			31/07/2017		4.370	3,000,000	UK - Gov 'AA'	5 Years +
						38,927,365		
					Total Portfolio	**40,837,365**		

Cashflow:

Call Accounts/MMF (as at 30/09/17)		Rate
Global Treasury Fund (Goldman Sachs Money Market Fund)	1,700,106	0.14%
Standard Life Investments (Money Market Fund)	6,500,000	0.20%
Natwest SIBA	5,710,008	0.01%
Natwest SIBA - SEEDA (DTIZ)	0	0.01%
Natwest SIBA - EP (HCA)	0	0.01%
Natwest SIBA - ASDA	0	0.01%
NatWest Current Acct	502	0.00%
Santander	2,999,117	0.05%
HSBC Business Acc	0	0.00%
Barclays	34,133	0.00%
Total Cash flow	**16,943,865**	
Total Portfolio and Cashflow	**57,781,230**	

Dover District Council Borrowing - 2017/18 **APPENDIX 3**

Interest Type	Date Loan Taken Out	Date Loan Matures	Repayment Dates	Loan Number	Principal Balance 01-Apr-17	Interest Rate %	Principal To Be Repaid 2017/18	Principal Balance 30-Sep-17	Annual Interest 2017/18	Lender	Type of loan
Fixed	02/10/1997	02/10/2057	APR-OCT	479961	1,000,000	6.75		1,000,000	67,500	PWLB	Principal due on Maturity
Fixed	28/05/1997	28/05/2057	MAY-NOV	479542	2,000,000	7.38		2,000,000	147,500	PWLB	Principal due on Maturity
Fixed	23/08/1946	23/06/2026	JUNE-DEC	131582	424	2.50	45	402	11	PWLB	Equal Instalment of Principal *(EIP)*
Fixed	27/09/1946	27/06/2026	JUNE-DEC	131583	79	2.50	8	75	2	PWLB	Equal Instalment of Principal *(EIP)*
Fixed	16/11/2001	30/09/2026	SEPT-MAR	486237	1,000,000	4.75		1,000,000	47,500	PWLB	Principal due on Maturity
Variable	16/12/2002	16/12/2042	JUNE-DEC	N/A	3,000,000	4.75		3,000,000	142,500	KA Finanz AG Bank	Repayable if called by Bank
Fixed	26/03/2012	26/03/2042	SEPT-MAR	499853	80,667,894	3.18	2,153,554	79,599,610	2,548,253	PWLB	Annuity
Fixed	22/03/2017	21/04/2017	APR	N/A	4,000,000	0.40	4,000,000	0	921	South Holland D.C.	Short term loan only (cash flow)
					91,668,397		**6,153,607**	**86,600,087**	**2,954,186**		*Sub-total*
Fixed	01/05/2012	01/11/2027	MAY-NOV		87,096	0.00	8,710	82,741	0	Lawn Tennis Association	Interest free
					91,755,493		**6,162,317**	**86,682,828**	**2,954,186**		

In-house as at 31/10/17 **APPENDIX 4**

Organisation	Type of investment	Current rating	Issue Date	Maturity date	Market yield %	Book cost	Government Sovereign Debt rating	Options available
Held in Custody at Kings and Shaxon								
United Kingdom	Gilt		24/05/2013	22/07/2018	1.250	950,000		
United Kingdom	Gilt		11/06/2013	22/07/2018	1.250	960,000		
						1,910,000		
In-house Investments - Portfolio:								***Duration***
Telford and Wrekin Council	Fixed term deposit		31/08/2017	30/11/2017	0.250	5,000,000	UK - Gov 'AA'	*91 days*
Birmingham City Council	Fixed term deposit		28/04/2017	27/04/2018	0.700	7,500,000	UK - Gov 'AA'	*364 days*
HSBC (Evergreen)	Notice Savings Account	AA-/F1+/1	26/02/2016		0.392	7,541,208	UK - Gov 'AA'	*90 days notice required to withdraw funds*
Santander	Notice Savings Account	A/F1/2	02/04/2016		0.400	7,889,022	UK - Gov 'AA'	*95 days notice required to withdraw funds*
In-house investments - Long Term								
CCLA Property investment Fund			30/06/2017		4.360	3,000,000	UK - Gov 'AA'	*5 Years +*
CCLA Property investment Fund			31/07/2017		4.370	3,000,000	UK - Gov 'AA'	*5 Years +*
						33,930,230		
				Total Portfolio		**35,840,230**		

Cashflow:

Call Accounts/MMF (as at 31/10/17)		Rate
Global Treasury Fund (Goldman Sachs Money Market Fund)	1,700,106	0.14%
Standard Life Investments (Money Market Fund)	6,500,000	0.20%
Natwest SIBA	11,020,066	0.01%
Natwest SIBA - SEEDA (DTIZ)	0	0.01%
Natwest SIBA - EP (HCA)	0	0.01%
Natwest SIBA - ASDA	0	0.01%
Santander	502	0.05%
Bank of Scotland (BOS)	3,000,210	0.15%
HSBC Business Acc	0	0.00%
Barclays	34,137	0.00%
Total Cash flow	**22,255,020**	
Total Portfolio and Cashflow	**58,095,250**	

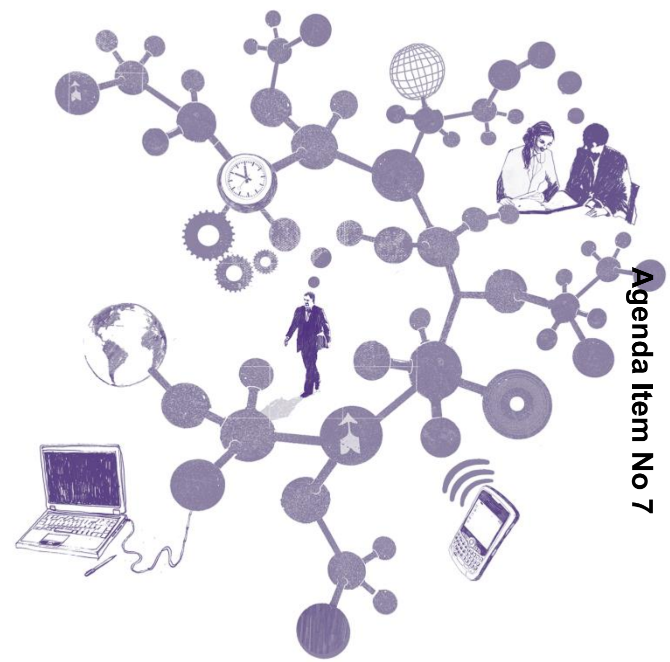
The Annual Audit Letter for Dover District Council

Year ended 31 March 2017

October 2017

Elizabeth Jackson
Engagement Lead
T 0207 728 3329
E elizabeth.l.jackson@uk.gt.com

Terry Blackman
Engagement Manager
T 020 7728 3194
E terry.blackman@uk.gt.com



Agenda Item No 7

Contents

50

Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Dover District Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Committee (as those charged with governance) in our Audit Findings Report on 28 September 2017.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 29 September 2017.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 29 September 2017.

Certificate

We certified that we had completed the audit of the accounts of Dover District Council in accordance with the requirements of the Code on 29 September 2017.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2017. We will report the results of this work to the Audit Committee in our Annual Certification Letter.

Working with the Council

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2017

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £1.32 million, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We set a lower threshold of £66,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by the Director of Finance, Housing and Community are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.	As part of our audit work we: • identified the controls put in place by management to ensure that the pension fund liability was not materially misstated. We also assessed whether these controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. • reviewed the competence, expertise and objectivity of the actuary who carried out the pension fund valuation • gained an understanding of the basis on which the valuation was carried out • carried out procedures to confirm the reasonableness of the actuarial assumptions made • reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the report from your actuary.	Our audit work has not identified any significant issues in relation to the risk identified. However, our audit work identified that the discount rate factor used by the actuary, Barnett Waddingham, is outside of the auditors expert assessment and additional procedures were carried out to confirm the factor used and variance is reasonable.
Valuation of property plant and equipment The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.	As part of our audit work we have: • undertaken a walkthrough of the council's processes and controls over this area to gain an understanding of these • reviewed management's processes and assumptions for the calculation of the estimate • reviewed the competence, expertise and objectivity of any management experts used • reviewed the instructions issued to valuation experts and the scope of their work • held discussions with the valuer about the basis on which the valuation is carried out and challenge of the key assumptions • review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding • tested revaluations made during the year to ensure they are input correctly into the Council's asset register • evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these are not materially different to current value.	Our audit work has not identified any significant issues in relation to the risk identified.

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 29 September 2017, in advance of the 30 September 2017 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of supporting working papers. The finance team responded promptly and efficiently to our queries during the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Governance Committee on 28 September 2017. The draft financial statements for the year ended 31 March 2017 recorded net expenditure of £3,504k; and the audited financial statements for the year ended 31 March 2017 recorded net expenditure of £3,275k. The amendment was due to the write out of old balances classified as receipts in advance.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risk we identified and the work we performed is set out overleaf. We raised one recommendation which is included in the findings table.

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

Value for Money

Value for money risks

Risk identified	Work carried out	Findings and conclusions
Medium term financial plan The local government settlement has placed further pressure on the Council's finances and the Council's medium term financial plan includes the need for significant savings over the next four years.	Review the Council's plans to deliver savings over the course of the medium term financial plan.	The Council has sound arrangements for developing, updating and implementing its medium term financial plan (MTFP). Focus on achievement of corporate priorities is evident through the financial planning process, and the MTFP ensures that resources are focused on priorities. Service and financial planning processes are well integrated, and the MTFP is consistent with other key strategies, including workforce plans. There is regular review of the MTFP and the assumptions made within it, and the Council has performed sensitivity analysis on its financial model using a range of economic assumptions. The Council continues to adapt to changing circumstances and to manage its financial risks effectively, but also faces significant challenges going forward. A primary concern is the potential volatility of three of its four main income streams, business rates, revenue support grant and New Homes Bonus, with significant reductions projected for the latter two over the next four years, and only Council Tax providing a measure of predictability. The Council is responding through initiatives such as the proposed Property Investment Strategy, through which it plans to invest up to £200m in commercial and residential property in order to increase economic regeneration and generate returns. It has also recently changed to a new treasury adviser with a view to improving investment returns. However, with the MTFP showing gaps of £1.7m for 2019/20 and £2.4m for 2020/21 there remains much to be done to ensure the future sustainability of the Council. **On this basis we have concluded overall that the risk was sufficiently mitigated and the Council has proper arrangements.** **Recommendation** Ensure a strong focus is maintained on 'future-proofing' against the risk of volatility and reductions in the Council's main current revenue streams.

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of Council	53,685	53,685	53,685
Housing Benefit Grant Certification	38,224	TBC	16,558
Total fees (excluding VAT)	**86,961**	**TBC**	**70,243**

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

We have not yet concluded our work on the Housing Benefit grant certification and will report actual fees to the Council once work is completed.

Reports issued

Report	Date issued
Audit Plan	6 April 2017
Audit Findings Report	28 September 2017
Annual Audit Letter	October 2017

Fees for other services

Service	Fees £
Audit related services: • Certification of housing pooling capital receipts return	1,500
Non-audit services	0

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all other services which were identified.
- We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place, as reported in our Audit Findings Report.
- The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor and have been approved by the Governance Committee.

grant-thornton.co.uk