

Public Document Pack



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14 September 2015

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 Tuesday 22 September 2015 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

A handwritten signature in black ink, appearing to read "N. Heath", written over a white background.

Chief Executive

Governance Committee Membership:

P G Heath (Chairman)
D Hannent (Vice-Chairman)
M J Holloway
S J Jones
A S Pollitt
G Rapley

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 4)

To receive any declarations of interest from Members in respect of business to be

transacted on the agenda.

4 **MINUTES** (Pages 5 - 10)

To confirm the attached Minutes of the meeting of the Committee held on 18 June 2015.

5 **PARKING UPDATE**

To consider the report of the Director of Environment and Corporate Assets (to follow).

6 **MEMBER AND PUBLIC PARTICIPATION AT COMMITTEE MEETINGS** (Pages 11 - 34)

To consider the attached report of the Director of Governance.

7 **TREASURY MANAGEMENT YEAR END REPORT** (Pages 35 - 48)

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

8 **TREASURY MANAGEMENT QUARTER ONE REPORT 2015/16** (Pages 49 - 59)

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

9 **QUARTERLY INTERNAL AUDIT UPDATE REPORT** (Pages 60 - 77)

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

10 **AUDIT FINDINGS REPORT** (Pages 78 - 108)

To consider the attached report from Grant Thornton.

11 **FINANCIAL OUTTURN REPORT 2014/15** (Pages 109 - 119)

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

12 **STATEMENT OF ACCOUNTS**

To consider the report of the Director of Finance, Housing and Community.

This previously published report has been withdrawn in order to make adjustments to the prior year (2013/14) asset values. The updated will follow.

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 Support 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, 18 June 2015 at 6.00 pm.

Present:

Chairman: Councillor P G Heath

Councillors: D Hannent
M J Holloway
S J Jones
A S Pollitt
G Rapley

Also Present: Emily Hill, Grant Thornton
Lisa Robertson, Grant Thornton

Officers: Director of Governance
Director of Finance, Housing and Community
Head of Audit Partnership (East Kent Audit Partnership)
Deputy Head of Audit Partnership (East Kent Audit Partnership)
Head of Finance (East Kent Housing)
Democratic Support Officer

1 APOLOGIES

There were no apologies for absence received from Members.

2 APPOINTMENT OF SUBSTITUTE MEMBERS

There were no substitute Members appointed.

3 DECLARATIONS OF INTEREST

There were no declarations of interest made by Members.

4 MINUTES

The Minutes of the meeting of the Committee meeting held on 26 March 2015 were approved as a correct record and signed by the Chairman.

5 QUARTERLY INTERNAL AUDIT UPDATE REPORT

The Deputy Head of Audit Partnership (East Kent Audit Partnership) introduced the Quarterly Internal Update report. There had been seven audits undertaken during the period; one had received a Substantial Assurance, and four had received Reasonable Assurances. There were three pieces of work where an assurance level was not applicable, these included: Tackling Tenancy Fraud and EK Services – Housing Benefit Quarterly Testing (Quarters 2 and 3 of 2014/15). There had been nine follow up reviews undertaken during the period and none of which remained as Limited Assurance after the review.

In respect of the Reasonable Assurance level awarded to Car Parking and PCNs, it was requested that an update be given detailing how improvements in the areas identified by EKAP had been implemented.

- RESOLVED: (a) That the report be received and noted.
- (b) That an update be given detailing how improvements have been implemented with regard to Car Parking and PCNs to the committee at its meeting on 22 September 2015.

6 ANNUAL INTERNAL AUDIT REPORT

The Head of Audit Partnership reported to the Committee a summary of the work completed by the East Kent Audit Partnership (EKAP) together with details of the performance of the EKAP against its targets for the year ending 31 March 2015.

During 2014-15 the EKAP delivered 99% of the agreed audit plan days, with 1.32 days under delivered to be adjusted for in 2015-16. During the same period 68 recommendations were made in the agreed final audit report; of these, 79% were in the High or Medium Risk categories although none were so significant that they needed to be escalated. Overall, of the 16 pieces of work completed 88% received substantial or reasonable assurance levels and 1 piece of work was partially limited and later revised to provide Reasonable Assurance. EKAP assessed the overall system of internal control in operation throughout 2014-15 as providing reasonable assurance.

RESOLVED: That the report be noted.

7 ANNUAL FRAUD REPORT 2014/15

The Head of Audit Partnership provided members with a summary of the anti-fraud work completed by the East Kent Audit Partnership (EKAP) for the year ending 31 March 2015.

There had been 575 referrals of potential benefit fraud during 2014-15 of which 358 were accepted for formal investigation and 2 press releases relating to the Council's detection of fraudulent activity during this period were issued. Members were advised that there were new powers available to the local authority with regards to Housing Tenancy Fraud and Housing Tenancy audits were being undertaken. Councillor M J Holloway raised concerns that the report lacked specific actions taken by East Kent Housing to prevent and detect potential housing fraud and it was unknown whether sufficient time and resources were being allocated to Housing Benefit Fraud.

- REOLVED: (a) That the report be noted.
- (b) That specific actions taken by East Kent Housing to prevent and detect housing fraud are contained within future reports.

8 ANNUAL GOVERNANCE ASSURANCE STATEMENT 2014/15

The Director of Governance presented the Annual Governance Assurance Statement 2014/15 to the Committee. The review was an annual requirement of the Account and Audit Regulations (England) 2003, as amended by the Account and

Audit (Amendment England) Regulations 2006, to look at the effectiveness of the Council's System of Internal Control.

Significant governance issues during the year were reported to include:

- one finding of maladministration by the Local Government Ombudsmen which related to noise nuisance;
- Safeguarding Children, which had been identified as a key issue for the Council, and for which training was being provided for all staff; and
- 2 claims made against the Council (as well as the majority of other District and Unitary Councils) by a group of Property Search Companies for fees paid to the Council to access land charges data. The first claim had already been settled and it was reported that since the agenda was published the Council had settled the second claim.

RESOLVED: That the Annual Governance Assurance Statement for 2014/15 be agreed.

9 AUDIT FEE LETTER 2015/16

Ms E Hill of Grant Thornton presented the 2015/16 Audit Fee letter to the Committee. Before the Audit Commission was abolished on 31 March 2015 it had set the scale fees for audits for 2015/16 and had secured a reduction in fees compared to the audit fee of 2014/15.

RESOLVED: That the Audit Fee letter be noted.

10 AUDIT PLAN 2014/15

Ms L Robertson of Grant Thornton presented the report which set out Grant Thornton's approach to conducting audits at Dover District Council, including the significant risks and financial challenges facing the authority, the fees and the proposed reporting timetable.

RESOLVED: That the report be received and noted.

11 GOVERNANCE COMMITTEE UPDATE

Ms L Robertson of Grant Thornton presented the update to the Committee. Members were directed to the report and the progress at March 2015. It was reported there was nothing significant to bring to Members' attention.

RESOLVED: That the update be noted.

12 APPOINTMENT OF EXTERNAL AUDITORS AND AN AUDITOR PANEL - LOCAL AUDIT AND ACCOUNTABILITY ACT 2014

The Director of Governance presented the report to the Committee. As a result of the Local Audit and Accountability Act 2014 changes to the external audit regime for local authorities would be brought into force, allowing local bodies to appoint their own auditors. The current contract with the external auditor Grant Thornton was due to end in 2016/17 and preparations for the new arrangements would need to be

made and in place for late 2015/early 2016. Members were asked to consider the options set out in the report, the future appointments of External Auditors and the need to form an Auditor panel.

- RESOLVED:
- (a) That the Committee notes the issues arising for this Council from the provisions of the Local Audit and Accountability Act 2014.
 - (b) That the Director of Finance, Housing and Community and the Director of Governance be authorised to pursue negotiations with Kent authorities and report their findings to the next meeting of the Committee.

13 MODIFICATION OF PRESCRIBED STANDING ORDERS RELATING TO THE DISMISSAL OF STATUTORY OFFICERS

The Director of Governance presented the report to Members. As a result of legislative changes the Council was required to amend its standing orders relating to the dismissal of statutory officers as required by the Local Authorities (Standing Orders) (England) (Amendment) Regulations 2015 ('the 2015 Regulations') and to incorporate them within the Council's Constitution by no later than the first ordinary meeting of the authority falling after 11 May 2015. Members were being asked to recommend to Council that these changes be adopted.

The 2015 Regulations had repealed the Local Authorities (Standing Orders) (England) Regulations 2001 which had provisions in the standing orders for the Council to appoint a "designated independent person" before it could discipline or dismiss a statutory officer. The 2015 Regulations required the Council to have appointed a panel for the purpose of advising on matters relating to the dismissal of a statutory officer. As the circumstances giving rise to the need to appoint a panel were likely to occur infrequently, it was suggested that in the event that one were needed a report would be put before Council at that time and a standing panel would not be required.

- RESOLVED: That the modifications to the Part 1 of the Council's Prescribed Standing Orders, Standing Orders Relating to Staff, be modified as set out in Appendix 2 to the report and be incorporated into the Council's Constitution.

14 PROCEDURE RULES FOR WITHDRAWAL FROM MEETINGS

The Director of Governance introduced the report to the Committee, advising that an amendment to the Council's Constitution was required to regularise existing practice in respect of Members withdrawing from meeting where they have an interest under the Code of Conduct.

As a result of an on-going review of the Council's Constitution it had been discovered that the Standing Orders governing the arrangements for Members withdrawing from meetings where a member had an interest had been omitted from the Council Procedure Rules. Although the Director of Governance had delegated authority to make amendments to administrative errors within the Constitution, due

to the nature of the issue it was appropriate that formal agreement was sought from the Governance Committee and Council to make such an amendment.

RESOLVED: That the 'Withdrawal from Meetings Procedure Rules' be adopted as an appendix to the Council Procedure Rules in Part 4 – Rules of Procedure in the Council's Constitution.

15 REVISION TO CONTRACT STANDING ORDERS

The Director of Finance, Housing and Community presented the report to Members.

The Council's Contract Standing Orders (CSOs) had been reviewed as a result of the New Public Contract Regulations 2015 and minor changes were required to tighten the controls operating the Council's procurement processes and to support the government's objectives in relation to the electronic delivery of service. These minor changes included: the implementation of e-tendering; changes in advertising requirements; roles and responsibilities; and a requirement for consultation with the Procurement manager for matters including, but not limited to, contract extensions, and variations.

RESOLVED: That the Council be recommended to adopt the revised contract Standing Orders appended to the report of the Director of Governance and Monitoring Officer.

16 EXCLUSION OF THE PRESS AND PUBLIC

It was moved by Councillor S J Jones, duly seconded and

RESOLVED: That under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the remainder of the meeting for the remainder of the business on the grounds that the item to be considered involve the likely disclosure of exempt information as defined in paragraph 3 of Part 1 Schedule 12A of the Act.

17 ANNUAL DEBT COLLECTION REPORT

The Director of Finance, Housing and Community presented the Annual Debt Collection Report to the Committee. The report was required annually and provided Members with an overview of the debt and write-off position and progress made.

Particular concerns were raised by Members with regards to the level of write-offs, and what policies were in place which demonstrated this Council's acceptable level of write-offs. Further concerns were discussed regarding the business rates debt and the value of the year end debt.

RESOLVED: (a) That the following matters be noted:

- (i) The value of 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 increasing arrears for housing benefit overpayments and leasehold service charges;
 - (v) the requirement to raise invoices for rechargeable works more promptly; and
 - (vi) the additional points set out in paragraph 8 of the report.
- (b) That the Portfolio Holder for Corporate Resources and Performance be invited to attend the next meeting of the Governance Committee to answer questions on debt write-offs.
- (c) That the Committee be advised on the policy of this Council on an acceptable level of debt write-off.
- (d) That each quarter, reports be brought back to the Committee on:
- (i) Collection rates on the main categories of debt;
 - (ii) Updates on business rates collection;
 - (iii) The progress on the collection of the debts outstanding as at 31 March 2015.

The meeting ended at 7.55 pm.

Subject: **Member and Public Participation at Committee Meetings**

Meeting and Date: **Governance Committee – 22 September 2015**
Council – 30 September 2015

Report of: **David Randall, Director of Governance**

Classification: **Unrestricted**

Purpose of the report: This report sets out the preferred approach for member and public participation at meetings of the Cabinet and Committees of the Council.

Recommendation: That it be recommended to the Governance Committee:

1. That the Governance Committee recommends to Council that the proposed changes in member and public participation as outlined in this report and specifically at Option 1 be approved and incorporated into the Council's Constitution.

That it be recommended to Council:

2. That the proposed changes in member and public participation as outlined in this report and specifically at Option 1 be approved and incorporated into the Council's Constitution.

1. Summary

- 1.1 Following a motion from Councillor P M Wallace at the meeting of Council at its meeting held on 29 January 2015, the Governance Committee at its meeting on 26 March 2015, considered a paper (Annex1) which set out a range of options for member and public participation at meetings of the Cabinet and Council Committees.
- 1.2 It was resolved by the Governance Committee that the Director of Governance, in consultation with the Group(s) Leader(s) after the AGM, be requested to develop proposals in respect of one or more of the models for member and public participation set out in Appendix A&B of the report for consideration by the Governance Committee.

2. Background

- 2.1 Following the May 2015 Council elections and the AGM, the Director of Governance has discussed this matter with the Leader of the Council and the Leader of the Main Opposition Group. The Leader of the Council wishes to implement a hybrid of Option 1B and 2A together with elements of Option 3A.
- 2.2 The various options are set out in greater detail in the Appendices A&B of the report of 26 March 2015, (at Annex 1), in summary the relevant options to be implemented are as follows:

- Option 1B: Minor changes to existing arrangements.
- Option 2A: Questions only on notice to an Agenda Item.
- Option 3A: Speaking on notice to an Agenda Item.

2.3 The desired changes will be achieved by the Executive including the Notice of Forthcoming Key Decisions on its monthly agenda and through this identifying any future agenda items that will be subject to pre-scrutiny. At the present time, the Executive don't receive the Notice of Forthcoming Key Decisions, this potentially causes a gap in their management of future items on their agenda. Considering the Notice of Forthcoming Key Decisions allows the Executive to identify issues of public interest that could benefit from the oxygen of debate via pre-scrutiny.

2.4 At present, very little Executive business is subject to pre-scrutiny and instead is added to the Scrutiny work programme at the request of the Scrutiny Committee itself. Pre-scrutiny would encourage member and public participation on certain matters by virtue of members and the public being able to speak to the agenda item and members (not the public) being able to ask questions at the scrutiny meeting if permitted to do so by the committee under Council Procedure Rule 24.2. Ideally the Portfolio Holder would be present at the scrutiny meeting to witness the debate and when required answer questions. This would allow a much wider member and public involvement in key decision making. The existing arrangements for Overview and Scrutiny Committees can accommodate the changes proposed without any alterations.

2.5 No changes are proposed to other committees. The time allowed for member and public participation at the Council, Planning and Scrutiny meetings is considered sufficient and there is no evidence of a need to increase the time allowed.

2.6 The Licensing Act 2003 and Gambling Act 2005 permit member and public participation at hearings before Licensing Sub-Committee meetings in accordance with the regulations made under each Act. No changes are considered necessary for these committees and it is difficult to see how meaningful changes could be accommodated given that the law prescribes who may appear before the sub-committees and lays down the rules for their participation

3. **Options for Consideration**

3.1 The report to the Governance Committee on 25 March 2015 (Annex 1) presented alternative models for member and public participation. The options were set out in the two appendices to that report, one for the public (Appendix A) and one for Members (Appendix B). The Governance Committee resolved that the Director of Governance, in consultation with the Group(s) Leader(s) after the AGM, be requested to develop proposals in respect of one or more of the models for member and public participation set out in Appendix A&B of the report for consideration by the Governance Committee.

3.2 Option 1. This report details the preferred approach of the Leader of the Council, which is to consider the Notice of Key Decisions as part of the Cabinet agenda/business of the Executive and identify any key decisions which would benefit from pre-scrutiny.

3.3 Option 2. Using the options outlined in the report to the Governance Committee on 25 March 2015 (Annex A), determine a different approach to achieve increased member and public participation in the business of the Executive.

3.4 Following approval of the preferred option, the Director of Governance will develop and submit any necessary amendments to the text of the Constitution to the Governance Committee and the Council for approval.

4. **Preferred Option**

4.1 Option 1 offers the opportunity for increased public participation, without the need for a set of new procedures for the Executive to be prepared. It addresses the features and discussion points raised as part of the report to the Governance Committee on 26 March 2015 (Annex 1) and allows the existing Overview and Scrutiny operating arrangements to deliver the desired outcome. It also recognises that the structure of local government is based upon representative democracy rather than participatory democracy. This is the preferred option.

4.2 Option 2 would require the Governance Committee to determine a different model. It was clear at the meeting of 26 March 2015 that the Committee recognised difficulties in allowing questions or speaking without notice on an agenda item or on any other matter. This would move much more to a participatory system, potentially undermining the will of the electorate. However, it is recognised that the representative and participatory democracy are not absolutes and can co-exist within a single democratic system.

5. **Resource Implications**

5.1 There will be minimal additional officer time required to introduce and manage these arrangements.

6. **Corporate Implications**

6.1 Comment from the Section 151 Officer: Finance has been consulted and has nothing further to add (VB).

6.2 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.

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

7. **Appendices**

Annex 1 – Report to Governance Committee – 26 March 2015
Options for Member and Public Participation at Committee Meetings

8. **Background Papers**

Constitution of the Council

Contact Officer: David Randall, Director of Governance

Subject:	OPTIONS FOR MEMBER AND PUBLIC PARTICIPATION AT COMMITTEE MEETINGS
Meeting and Date:	Governance Committee – 26 March 2015 Governance Committee – 18 June 2015 Council – 22 July 2015
Report of:	Director of Governance
Classification:	UNRESTRICTED

Purpose of the report:	This report sets out a range of approaches for member and public participation at meetings of the Cabinet and Committees of the Council.
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Recommendation:	That the Director of Governance be requested to develop proposals in respect of one or more of the models for member and public participation set out in Appendices A and B.
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1. Summary

- 1.1 This paper sets out a range of options for member and public participation at meetings of the Cabinet and Council Committees.
- 1.2 In preparing this paper, we have been mindful that the structure of local government is based upon representative democracy rather than participatory democracy. However, it is recognised that the representative and participatory democracy are not absolutes and can co-exist within a single democratic system.

2. Introduction and Background

- 2.1 The Council at its meeting held on 28 January 2015 considered the following motion from Councillor P M Wallace in respect of increasing public participation at the meetings of Cabinet and Council committees:

“In the interests of transparency and improved decision making, this Council instructs officers to develop proposals for introducing 30 minute Public and Member Question Time sessions in the meetings of Cabinet and Council committees, thereby improving participation in the decision-making processes of this Council.”

- 2.2 It was resolved by Council that consideration of the matter be deferred until the first ordinary meeting of the Council after the Annual General Meeting in order to give officers time to produce a report on the matter.

The Current Arrangements for Public Participation

- 2.3 The Council currently has arrangements in place for public participation at the following meetings:
 - Full Council – A member of the public may ask a written question on-notice (8 days) of any member of the Cabinet. A maximum of 3 minutes is allowed to read the question, with one additional supplementary question permitted (without notice but must arise from the answer given by the Cabinet member). A total of 15 minutes is allocated for public questions.
 - Planning Committee – A member of the public may register to speak in favour or against a planning application to which public speaking applies. Procedural items (apologies, minutes, etc.) are excluded. A maximum of 3 minutes per

speaker (with a limit of 1 speaker for and 1 speaker against) is allowed to speak to the application. There is no provision for a member of the public to ask a question of an officer or councillor as part of their 3 minutes. The deadline for speakers to register is no later than 2 working days prior to the meeting.

- Scrutiny Committees – A member of the public may register to speak for up to 3 minutes in respect of a non-exempt, non-procedural item on the agenda. There is no provision for a member of the public to ask a question of an officer or councillor as part of their 3 minutes. The deadline for speakers to register is no later than 2 working days prior to the meeting.

2.4 In addition, separate from this the Licensing Act 2003 and Gambling Act 2005 permits member and public participation at Licensing Sub-Committee meetings in accordance with the regulations made under each Act.

3. The Current Arrangements for Member Participation

3.1 The rights of Members to participate in meetings where they are not a duly appointed committee member are set out in Council Procedure Rule 24. These apply to Committees and Sub-Committees of the Council only and not apply to meetings of the Cabinet, which are governed by the Executive Procedure Rules.

3.2 Members are not entitled to take part in any proceeding of a Committee or Sub-Committee of the Council unless:

- They are a duly appointed member of the Committee or Sub-Committee.
- They are requested by or permitted to do so by the Committee or Sub-Committee.
- The matter under discussion relates to a parish for which the member is the local district councillor
- They are the proposer or seconder of a motion which has been referred by Council to another committee has the right to attend that meeting to explain the motion.

3.3 It should be noted that under the rights granted to Members under Council Procedure Rule 24, Members are permitted to participate in the discussion with those Members appointed to serve on the Committee. This is not a right granted to the public.

3.4 In respect of the 3 committees referred to for public speaking, the arrangements for Members are as follows:

- Full Council – A Member may fully participate in the meeting subject to the Council Procedure Rules.
- Planning Committee – A Member may fully participate in the meeting as per paragraph 2.5 of this report, save that for in respect of planning applications where the Protocol for Speaking at Planning Committee applies.
- Scrutiny Committees – Council Procedure Rule 24 applies to the participation of Members who are not appointed to the Committee.

3.5 In addition, separate from this the Licensing Act 2003 and Gambling Act 2005 permits member and public participation at Licensing Sub-Committee meetings in accordance with the regulations made under each Act.

Terminology

3.6 In developing alternative models for member and public participation, the following terminology has been used.

- ‘Questions’ – Addressing, in writing or orally, a member or officer for the purpose of gaining specific information in response.
- ‘Speaking’ – Making statements of fact or opinion. It can be either for, against or neutral on a particular matter and it may, or may not, urge a particular course of action to be followed.
- ‘On Notice’ – Notice of intent to speak or ask a question at a meeting provided by a certain date in advance of the meeting.
- ‘Without Notice’ – Participation would be made on a ‘first come, first served’ basis at the meeting with no advance notification of a person’s intent to speak or ask a question at the meeting.

4. **Alternative Models for Member and Public Participation at Committee Meetings**

4.1 This report does not seek to present a finished procedure for member and public participation but rather alternative models that can be developed into proposals that can be presented to full Council. To this end, no specific proposals are identified for individual committees.

4.2 The options are set out in greater detail in the two appendices to this report, one for the public (Appendix A) and one for Members (Appendix B), but in summary are as follows:

- Option 1A: Status Quo – No change to the existing arrangements.
- Option 1B: Minor changes to existing arrangements.
- Option 2A: Questions only on notice to an Agenda Item.
- Option 2B: Questions without notice to an Agenda Item.
- Option 3A: Speaking on notice to an Agenda Item.
- Option 3B: Speaking without notice to an Agenda Item.
- Option 4A: Questions on notice to any matter.
- Option 4B: Questions without notice to any matter.
- Option 5A: Speaking on notice to any matter.
- Option 5B: Speaking without notice to any matter.

3.3 There is no requirement that the same models are adopted for both Members and the public.

5. **Evaluation of Options**

5.1 There is no preferred option set out in this report notwithstanding that there would be concerns about some of the options which are set out in the appendices. Instead Members are asked to consider the following factors in selecting their preferred model:

- **Representative Democracy** – Are Members seeking to strengthen the existing structure of representative democracy or are they seeking to move towards a more structure that is based more on the principles of participatory democracy in decision-making?
- **Outcomes** – These decisions will shape the preferred model(s).
What should the preferred model of public participation deliver?
What should the preferred model of member participation deliver?

What controls, if any, should be in place to manage the process?

Does the Council have the power to deliver the preferred model?

- **Exempt Business** – Should in principle the rights of speaking or questioning apply equally to both public business (in the white pages of the agenda) and exempt business (in the pink pages of the agenda)? The member of the public would have to speak or ask the question prior to the decision to resolve to exclude the press and public and would only have access to the agenda item title not the exempt report.
- **The Role of Members** – Should the same rights of speaking or questioning and the notice requirements for the public apply equally to District Councillors who are not members of the relevant committee? Or is there an assumption, as present in Council Procedure Rule 24 currently, that Members will have greater rights of participation than the public in keeping with the principles of representative democracy in order to provide a voice for their constituents?

Is there an expectation that a question asked by a Member will be answered? For example, is there a prerogative to decline to answer a question? Currently it is implicitly assumed that, even if it is a one word response, Members' questions will be answered.

- **The Role of Officers** – The Council's officer corps would be required to manage the research necessary for providing a briefing to Members on questions / topics.
- **The Role of the Public** – Is it the intention to use Member and Public participation as consultees / sounding boards to the decision-making process or will action be taken in response to Member and Public participation?

Is there an expectation that where a member of the public asks a question it will be answered? For example, is there a prerogative to decline to answer a question?

- **Resources and Administrative Impact** – Is the preferred model able to be delivered efficiently, effectively and at an affordable cost?

A model, or variety of models, with a high level of complexity could become difficult to administer and confusing for the public.

Should the question be linked to the business on the agenda? Questions on matters not on the agenda would have a resourcing implication in preparing additional briefings for Members.

5.2 In addition, there is a requirement that, regardless of the model chosen, the question or the subject of public speaking must be within the remit of the Committee. The Constitution under Part 3 (Responsibility for Functions) sets out in the areas of remits of individual committees.

5.3 It should be noted that some of the regulatory bodies, such as the Licensing Committee or Planning Committee, may have to be exempted from all or part of the preferred model.

6. Resource Implications

5.1 There will be resource requirements and these will be assessed once the preferred model has been selected.

7. Appendices

Appendix A – Models of Public Participation

Appendix B – Models of Member Participation

8. **Background Papers**

Constitution – Issue 19b, in particular the Council Procedure Rules and the Protocols on Public Speaking at Planning Committee and Overview and Scrutiny.

Contact Officer: Rebecca Brough, Team Leader – Democratic Support 01304 872304

Models for Public Participation

Option 1A: Status Quo – No change from the current arrangements

Current Model:

- Full Council – A member of the public may ask a written question on-notice (8 days) of any member of the Cabinet. A maximum of 3 minutes is allowed to read the question, with one additional supplementary question permitted (without notice but must arise from the answer given by the Cabinet member). A total of 15 minutes is allocated for public questions.
- Planning Committee – A member of the public may register to speak in favour or against a planning application to which public speaking applies. Procedural items (apologies, minutes, etc.) are excluded. A maximum of 3 minutes per speaker (with a limit of 1 speaker for and 1 speaker against) is allowed to speak to the application. There is no provision for a member of the public to ask a question of an officer or councillor as part of their 3 minutes. The deadline for speakers to register is no later than 2 working days prior to the meeting.
- Scrutiny Committees – A member of the public may register to speak for up to 3 minutes in respect of a non-exempt, non-procedural item on the agenda. There is no provision for a member of the public to ask a question of an officer or councillor as part of their 3 minutes. The deadline for speakers to register is no later than 2 working days prior to the meeting.

Discussion Points:

- Are Members satisfied that the current model delivers sufficient public participation?

Option 1B: Minor changes to existing arrangements

Features of the proposed Model:

In keeping with the original motion considered by Council, this option could involve minor amendments to the existing arrangements. By way of example, this could include such options as increasing the number of speakers for / against at Planning Committee; expanding the time allocated at Council for public questions from 15 minutes to 30 minutes; expanding current arrangements to add a single committee (such as Cabinet); or something else that doesn't involve significant changes to the existing model.

Discussion Points:

- Are Members satisfied that minor amendments to the existing model delivers sufficient public participation?

The following models can apply equally to Cabinet or a Committee of the Council:

Option 2A: Questions on notice to an Agenda Item

Features of the proposed model:

- Public participation would be in the form of a question asked to a member of the relevant committee to which this model applied.
- Limited to substantive agenda items (for example, procedural matters such as apologies, appointment of substitutes, minutes and declarations of interest would not be included).
- Potentially increases the duration of the meeting, though the experience of public speaking at scrutiny is that this may be on an issue specific basis rather than generally.
- Potentially increases public participation, though the experience of public speaking at scrutiny is that this may be on an issue specific basis rather than generally.
- A framework would need to be developed for acceptable and unacceptable questions (i.e. not permitting vexatious or abusive questions).
- Not expected to significantly increase officer workload as the questions would arise from a report that had already been prepared. However, it may increase the number of officers required to attend committee meetings.
- Could lead to enhanced or poorer decision-making.

Discussion Points:

- How much notice would be required?
Less than 8 days would, in practical terms, mean that the question would not be in the agenda at the time of its publication. Would there be concern that shorter notice would represent a loss of transparency? However, as the agenda is only published at 5 days prior to the meeting a member of the public would not know what was on the agenda at 8 days prior to be able to ask a question. If less than 5 days' notice is given, there would still need to be time allowed for officers to brief the Member answering the question.
- Would there be a limit on the amount of time for public speaking and/or the number of questions that could be asked on an agenda item?
- When in the agenda would the questions be asked? At the start (as with Council and scrutiny) or at the start of the specific agenda item (such as with planning).

Option 2B: Questions without notice to an Agenda Item

Features of the proposed model:

- Public participation would be in the form of a question asked to a member of the relevant committee to which this model applied.
- Limited to substantive agenda items (for example, procedural matters such as apologies, appointment of substitutes, minutes and declarations of interest would not be included).
- Potentially increases the duration of the meeting, though the experience of public speaking at scrutiny is that this may be on an issue specific basis rather than generally.

- Potentially increases public participation, though the experience of public speaking at scrutiny is that this may be on an issue specific basis rather than generally.
- A framework would need to be developed for acceptable and unacceptable questions (i.e. not permitting vexatious or abusive questions).
- May impose a significant increase in workload for officers as, although related to a report already prepared, they will be trying to anticipate questions and may as a result over prepare. It may also involve more officers as a result.
- Could lead to enhanced or poorer decision-making.

Discussion Points:

- Would there be a limit on the amount of time for public speaking and/or the number of questions that could be asked on an agenda item?
- When in the agenda would the questions be asked? At the start (as with Council and scrutiny) or at the start of the specific agenda item (such as with planning).

Option 3A: Speaking on notice to an Agenda Item

Features of the proposed model:

- Public participation would be in the form a statement made within the allotted time for public speaking. However, the speaker and the item would be known in advance the content of the statement would not be.
- Limited to substantive agenda items (for example, procedural matters such as apologies, appointment of substitutes, minutes and declarations of interest would not be included).
- Potentially increases the duration of the meeting, though the experience of public speaking at scrutiny is that this may be on an issue specific basis rather than generally.
- Potentially increases public participation, though the experience of public speaking at scrutiny is that this may be on an issue specific basis rather than generally.
- A framework would need to be developed for acceptable and unacceptable questions (i.e. not permitting vexatious or abusive questions).
- Not expected to significantly increase officer workload as the questions would arise from a report that had already been prepared. However, it may increase the number of officers required to attend committee meetings or be involved in briefing Members.
- May lead to more deferrals in decision-making as not knowing the points being made in advance could mean that issues cannot be effectively addressed at the meeting.
- Could lead to enhanced or poorer decision-making.

Discussion points:

- How much notice would be required?
Less than 8 days would, in practical terms, mean that the number of speakers to an item would not be in the agenda at the time of its publication. Would there be concern that shorter notice would represent a loss of transparency? However, as the agenda is only published at 5 days prior to the meeting a member of the public would not know what was

on the agenda at 8 days prior to be able to indicate that they wanted to speak to it. If less than 5 days' notice is given there would still need to be time allowed for officers to brief the Member in respect of the agenda item and related background.

Option 3B: Speaking without notice to an Agenda Item

Features of the proposed model:

- Public participation would be in the form a statement made within the allotted time for public speaking.
- Limited to substantive agenda items (for example, procedural matters such as apologies, appointment of substitutes, minutes and declarations of interest would not be included).
- Potentially increases the duration of the meeting, though the experience of public speaking at scrutiny is that this may be on an issue specific basis rather than generally.
- A framework would need to be developed for acceptable and unacceptable questions (i.e. not permitting vexatious or abusive questions).
- May impose a significant increase in workload for officers as, although related to a report already prepared, they will be trying to anticipate comments and may as a result over prepare. It may also involve more officers as a result.
- Could lead to enhanced or poorer decision-making.
- May lead to more deferrals in decision-making as not knowing the points being made in advance could mean that issues cannot be effectively addressed at the meeting.

Discussion Points:

- Would there be a limit on the amount of time for public speaking and/or the number of questions that could be asked on an agenda item?
- When in the agenda would the questions be asked? At the start (as with Council and scrutiny) or at the start of the specific agenda item (such as with planning).

Option 4A: Questions on notice to any matter

Features of the proposed model:

- Public participation would be in the form of a question asked to a member of the relevant committee to which this model applied.
- May offend local government legislation which requires business before the Committee to be specified in the agenda.
- Limited to substantive agenda items (for example, procedural matters such as apologies, appointment of substitutes, minutes and declarations of interest would not be included).
- Potentially increases the duration of the meeting, though the experience of public speaking at scrutiny is that this may be on an issue specific basis rather than generally.
- Potentially increases public participation, though the experience of public speaking at scrutiny is that this may be on an issue specific basis rather than generally.

- A framework would need to be developed for acceptable and unacceptable questions (i.e. not permitting vexatious or abusive questions).
- Expected to significantly increase officer workload as the questions would arise from anything and not necessarily the reports on the agenda. It may increase the number of officers required to attend committee meetings as a result.
- Although Members can already ask questions of officers on any item (public or exempt) on the agenda without notice, this potentially gives the public greater powers than Members themselves who are restricted to questions related to the business contained within the agenda due to public notice requirements.
- Could lead to enhanced or poorer decision-making.

Discussion Points:

- Less than 8 days would, in practical terms, mean that the question would not be in the agenda at the time of its publication. Would there be concern that shorter notice would represent a loss of transparency? If less than 5 days' notice is given there would still need to be time allowed for officers to brief the Member answering the question.
- Would there be a limit on the amount of time for public speaking and/or the number of questions that could be asked on an agenda item?
- When in the agenda would the questions be asked? At the start (as with Council and scrutiny) or at the start of the specific agenda item (such as with planning).

Option 4B: Questions without notice to any matter

Features of the proposed model:

- Public participation would be in the form of a question asked to a member of the relevant committee to which this model applied.
- Becomes a significant concern that this may offend local government legislation which requires business before the Committee to be specified in the agenda.
- Significant risk that the question cannot be answered because of lack of knowledge or inability to disclose exempt information.
- Limited to substantive agenda items (for example, procedural matters such as apologies, appointment of substitutes, minutes and declarations of interest would not be included).
- Potentially increases the duration of the meeting, though the experience of public speaking at scrutiny is that this may be on an issue specific basis rather than generally.
- Potentially increases public participation, though the experience of public speaking at scrutiny is that this may be on an issue specific basis rather than generally.
- A framework would need to be developed for acceptable and unacceptable questions (i.e. not permitting vexatious or abusive questions).
- Will impose a significant increase in workload for officers as may lead to work after the meeting if questions are to be carried over to next meeting or written response outside of the meeting. May also increase the number of officers required to attend meetings or involved in briefing members/preparing responses.

- Although Members can already ask questions of officers on any item (public or exempt) on the agenda without notice, this potentially gives the public greater powers than Members themselves who are restricted to questions related to the business contained within the agenda due to public notice requirements.
- Could lead to enhanced or poorer decision-making.

Discussion Points:

- Risk that the agenda becomes set by the public and not the Council?
- May adversely impact on the public perception of Members and officers by not being able to provide an answer to the public at the meeting, particular in respect of technical / detailed matters.
- Would there be a limit on the amount of time for public speaking and/or the number of questions that could be asked on an agenda item?
- When in the agenda would the questions be asked? At the start (as with Council and scrutiny) or at the start of the specific agenda item (such as with planning).

Option 5A: Speaking on notice to any matter

Features of the proposed model:

- Public participation would be in the form a statement made within the allotted time for public speaking.
- Agenda becomes set by the public not the Council and may involve matters which are not connected to the Council's functions or remit.
- Becomes a significant concern that this may offend local government legislation which requires business before the Committee to be specified in the agenda.
- Limited to substantive agenda items (for example, procedural matters such as apologies, appointment of substitutes, minutes and declarations of interest would not be included).
- Potentially increases the duration of the meeting, though the experience of public speaking at scrutiny is that this may be on an issue specific basis rather than generally.
- Potentially increases public participation, though the experience of public speaking at scrutiny is that this may be on an issue specific basis rather than generally.
- A framework would need to be developed for acceptable and unacceptable questions (i.e. not permitting vexatious or abusive questions).
- Expected to significantly increase officer workload as the statements could relate to anything and not necessarily the reports on the agenda. It may increase the number of officers required to attend committee meetings as a result.
- Although Members can already ask questions of officers on any item (public or exempt) on the agenda without notice, this potentially gives the public greater powers than Members themselves who are restricted to questions related to the business contained within the agenda due to public notice requirements.
- Could lead to enhanced or poorer decision-making.

Discussion Points:

- How much notice would be required?
Less than 8 days would, in practical terms, mean that the number of speakers to an item would not be in the agenda at the time of its publication. Would there be concern that shorter notice would represent a loss of transparency? However, as the agenda is only published at 5 days prior to the meeting a member of the public would not know what was on the agenda at 8 days prior to be able to indicate that they wanted to speak to it. If less than 5 days' notice is given there would still need to be time allowed for officers to brief the Member in respect of the agenda item and related background.
- Would there be a limit on the amount of time for public speaking and/or the number of times a person could speak?
- When in the agenda would the public speaking take place? At the start (as with Council and scrutiny) or at the start of the specific agenda item (such as with planning).

Option 5B: Speaking without notice to any matter

Features of the proposed model:

- Public participation would be in the form a statement made within the allotted time for public speaking.
- Agenda becomes set by the public not the Council and may involve matters which are not connected to the Council's functions or remit.
- Becomes a significant concern that this may offend local government legislation which requires business before the Committee to be specified in the agenda.
- Limited to substantive agenda items (for example, procedural matters such as apologies, appointment of substitutes, minutes and declarations of interest would not be included).
- Potentially increases the duration of the meeting, though the experience of public speaking at scrutiny is that this may be on an issue specific basis rather than generally.
- Potentially increases public participation, though the experience of public speaking at scrutiny is that this may be on an issue specific basis rather than generally.
- A framework would need to be developed for acceptable and unacceptable questions (i.e. not permitting vexatious or abusive questions).
- Will impose a significant increase in workload for officers as may lead to work after the meeting if questions are to be carried over to next meeting or written response outside of the meeting. May also increase the number of officers required to attend meetings or involved in briefing members/preparing responses.
- Although Members can already ask questions of officers on any item (public or exempt) on the agenda without notice, this potentially gives the public greater powers than Members themselves who are restricted to questions related to the business contained within the agenda due to public notice requirements.
- Could lead to enhanced or poorer decision-making.

Discussion Points:

- Would there be a limit on the amount of time for public speaking and/or the number of times a person could speak?
- When in the agenda would the public speaking take place? At the start (as with Council and scrutiny) or at the start of the specific agenda item (such as with planning).

Models for Member Participation

Option 1A: Status Quo – No change from the current arrangements

Current Model:

- The rights of Members to participate in meetings where they are not a duly appointed committee member are set out in Council Procedure Rule 24. These apply to Committees and Sub-Committees of the Council only and not apply to meetings of the Cabinet, which are governed by the Executive Procedure Rules.
- Under Council Procedure Rule 24, Members are not entitled to take part in any proceeding of a Committee or Sub-Committee of the Council unless:
 - (a) They are a duly appointed member of the Committee or Sub-Committee.
 - (b) They are requested by or permitted to do so by the Committee or Sub-Committee.
 - (c) The matter under discussion relates to a parish for which the member is the local district councillor
 - (d) They are the proposer or seconder of a motion which has been referred by Council to another committee has the right to attend that meeting to explain the motion.
- In respect of the 3 committees referred to for public speaking in Appendix A, the arrangements for Members are as follows:
 - Full Council – A Member may fully participate in the meeting subject to the Council Procedure Rules. This includes the right to ask a question, on notice, to a Committee Chairman or Cabinet Member. A further supplementary question may be asked without notice arising from the answer given to the question.
 - Planning Committee – A Member may fully participate in the meeting as per paragraph 2.5 of this report, save that for in respect of planning applications where the Protocol for Speaking at Planning Committee applies.
 - Scrutiny Committees – Council Procedure Rule 24 applies to the participation of Members who are not appointed to the Committee.
- In addition, separate from this the Licensing Act 2003 and Gambling Act 2005 permits member participation at Licensing Sub-Committee meetings in accordance with the regulations made under each Act.

Discussion Points:

- Are Members satisfied that the current model delivers sufficient member participation to enable Members to fulfil their roles as representatives of their constituents?

Option 1B: Minor changes to existing arrangements

Features of the proposed Model:

In keeping with the original motion considered by Council, this option could involve minor amendments to the existing arrangements. By way of example, this could include such options as

amending the Executive Procedure Rules to grant Members of the Council the same rights at Cabinet meetings as provided under Council Procedure Rule 24.

Discussion Points:

- Are Members satisfied that the current model delivers sufficient member participation to enable Members to fulfil their roles as representatives of their constituents?

The following models are intended to replace existing arrangements for Member participation and can apply equally to Cabinet or a Committee of the Council:

Option 2A: Questions on notice to an Agenda Item

Features of the proposed model:

- Member participation would be in the form of a question asked to a member of the relevant committee to which this model applied.
- Limited to substantive agenda items (for example, procedural matters such as apologies, appointment of substitutes, minutes and declarations of interest would not be included).
- Potentially increases the duration of the meeting.
- Potentially increases participation for members not appointed to the committee.
- Not expected to significantly increase officer workload as the questions would arise from a report that had already been prepared. However, it may increase the number of officers required to attend committee meetings.
- Members can already ask speak on any item (public or exempt) on the agenda without notice, subject to the provisions of Council Procedure Rule 24.
- Could lead to enhanced or poorer decision-making.
- Only Members appointed to a Committee would be permitted to vote on the decision.

Discussion Points:

- How much notice would be required?
Less than 8 days would, in practical terms, mean that the question would not be in the agenda at the time of its publication. Would there be concern that shorter notice would represent a loss of transparency? However, as the agenda is only published at 5 days prior to the meeting a member would not know what was on the agenda at 8 days prior to be able to ask a question. If less than 5 days' notice is given, there would still need to be time allowed for officers to brief the Member answering the question.
- Would there be a limit on the amount of time for Members' questions and/or the number of questions that could be asked on an agenda item?
- When in the agenda would the questions be asked? Under a separate item for Members' Questions (as with Council) or at the start of the specific agenda item (such as with scrutiny)?

- Would there need to be a six month rule to limit the same question being asked at every meeting?
- Does this represent an enhancement of current Members' rights of participation granted under Council Procedure Rule 24 and the relevant protocols?

Option 2B: Questions without notice to an Agenda Item

Features of the proposed model:

- Member participation would be in the form of a question asked to a member of the relevant committee to which this model applied.
- Limited to substantive agenda items (for example, procedural matters such as apologies, appointment of substitutes, minutes and declarations of interest would not be included).
- Potentially increases the duration of the meeting.
- Potentially increases participation for members not appointed to the committee.
- May impose a significant increase in workload for officers as, although related to a report already prepared, they will be trying to anticipate questions and may as a result over prepare. It may also involve more officers as a result.
- Members can already ask speak on any item (public or exempt) on the agenda without notice, subject to the provisions of Council Procedure Rule 24.
- Could lead to enhanced or poorer decision-making.
- Only Members appointed to a Committee would be permitted to vote on the decision.

Discussion Points:

- Would there be a limit on the amount of time for member speaking and/or the number of questions that could be asked on an agenda item?
- When in the agenda would the questions be asked? Under a separate item for Members' Questions (as with Council) or at the start of the specific agenda item (such as with scrutiny)?
- Would there need to be a six month rule to limit the same question being asked at every meeting?
- Does this represent an enhancement of current Members' rights of participation granted under Council Procedure Rule 24 and the relevant protocols?

Option 3A: Speaking on notice to an Agenda Item

Features of the proposed model:

- Member participation would be in the form a statement made within the allotted time for member speaking. However, although the member and the item would be known in advance the content of the statement would not be.
- Limited to substantive agenda items (for example, procedural matters such as apologies, appointment of substitutes, minutes and declarations of interest would not be included).

- Potentially increases the duration of the meeting.
- Potentially increases participation for members not appointed to the committee.
- Not expected to significantly increase officer workload as the questions would arise from a report that had already been prepared. However, it may increase the number of officers required to attend committee meetings or be involved in briefing Members.
- May lead to more deferrals in decision-making as not knowing the points being made in advance could mean that issues cannot be effectively addressed at the meeting.
- Members can already ask speak on any item (public or exempt) on the agenda without notice, subject to the provisions of Council Procedure Rule 24.
- Could lead to enhanced or poorer decision-making.
- Only Members' appointed to a Committee would be permitted to vote on the decision.

Discussion points:

- How much notice would be required?
Less than 8 days would, in practical terms, mean that the question would not be in the agenda at the time of its publication. Would there be concern that shorter notice would represent a loss of transparency? However, as the agenda is only published at 5 days prior to the meeting a member would not know what was on the agenda at 8 days prior to be able to ask a question. If less than 5 days' notice is given, there would still need to be time allowed for officers to brief the Member answering the question.
- When in the agenda would Member speaking be held? Under a separate item for Members' Speaking or at the start of the specific agenda item?
- Does this represent an enhancement of current Members' rights of participation granted under Council Procedure Rule 24 and the relevant protocols?

Option 3B: Speaking without notice to an Agenda Item

Features of the proposed model:

- Member participation would be in the form a statement made within the allotted time for Member speaking.
- Limited to substantive agenda items (for example, procedural matters such as apologies, appointment of substitutes, minutes and declarations of interest would not be included).
- Potentially increases the duration of the meeting.
- Potentially increases participation for members not appointed to the committee.
- May impose a significant increase in workload for officers as, although related to a report already prepared, they will be trying to anticipate comments and may as a result over prepare. It may also involve more officers as a result.
- Members can already ask speak on any item (public or exempt) on the agenda without notice, subject to the provisions of Council Procedure Rule 24.
- Could lead to enhanced or poorer decision-making.
- May lead to more deferrals in decision-making as not knowing the points being made in advance could mean that issues cannot be effectively addressed at the meeting.

- Only Members' appointed to a Committee would be permitted to vote on the decision.

Discussion Points:

- Would there be a limit on the amount of time for Member speaking and/or the number of questions that could be asked on an agenda item?
- When in the agenda would Member speaking be held? Under a separate item for Members' Speaking or at the start of the specific agenda item?
- Does this represent an enhancement of current Members' rights of participation granted under Council Procedure Rule 24 and the relevant protocols?

Option 4A: Questions on notice to any matter

Features of the proposed model:

- Member participation would be in the form of a question asked to a member of the relevant committee to which this model applied.
- May offend local government legislation which requires business before the Committee to be specified in the agenda.
- Risk that the agenda becomes set by the wider Members not the Committee members and may involve matters which are not connected to the Council/Committee's functions or remit.
- Limited to substantive agenda items (for example, procedural matters such as apologies, appointment of substitutes, minutes and declarations of interest would not be included).
- Potentially increases the duration of the meeting.
- Potentially increases participation for members not appointed to the committee.
- Expected to significantly increase officer workload as the questions would arise from anything and not necessarily the reports on the agenda. It may increase the number of officers required to attend committee meetings as a result.
- Members can already ask speak on any item (public or exempt) on the agenda without notice, subject to the provisions of Council Procedure Rule 24.
- Could lead to enhanced or poorer decision-making.
- Only Members' appointed to a Committee would be permitted to vote on the decision.

Discussion Points:

- How much notice would be required?
Less than 8 days would, in practical terms, mean that the question would not be in the agenda at the time of its publication. Would there be concern that shorter notice would represent a loss of transparency? However, as the agenda is only published at 5 days prior to the meeting a member would not know what was on the agenda at 8 days prior to be able to ask a question. If less than 5 days' notice is given, there would still need to be time allowed for officers to brief the Member answering the question.
- Would there be a limit on the amount of time for Member speaking and/or the number of questions that could be asked on an agenda item?

- When in the agenda would the questions be asked? Under a separate item for Members' Questions (as with Council) or at the start of the specific agenda item (such as with scrutiny)?
- Does this represent an enhancement of current Members' rights of participation granted under Council Procedure Rule 24 and the relevant protocols?

Option 4B: Questions without notice to any matter

Features of the proposed model:

- Member participation would be in the form of a question asked to a member of the relevant committee to which this model applied.
- Risk that the agenda becomes set by the wider Members not the Committee members and may involve matters which are not connected to the Council/Committee's functions or remit.
- Becomes a significant concern that this may offend local government legislation which requires business before the Committee to be specified in the agenda.
- Significant risk that the question cannot be answered because of lack of knowledge or inability to disclose exempt information.
- Limited to substantive agenda items (for example, procedural matters such as apologies, appointment of substitutes, minutes and declarations of interest would not be included).
- Potentially increases the duration of the meeting.
- Potentially increases participation for members not appointed to the committee.
- Will impose a significant increase in workload for officers as may lead to work after the meeting if questions are to be carried over to next meeting or written response outside of the meeting. May also increase the number of officers required to attend meetings or involved in briefing members/preparing responses.
- Members can already ask speak on any item (public or exempt) on the agenda without notice, subject to the provisions of Council Procedure Rule 24.
- Could lead to enhanced or poorer decision-making.
- Only Members' appointed to a Committee would be permitted to vote on the decision.

Discussion Points:

- May adversely impact on the public perception of Members and officers by not being able to provide an answer at the meeting, particular in respect of technical / detailed matters.
- Would there be a limit on the amount of time for Member speaking and/or the number of questions that could be asked on an agenda item?
- When in the agenda would the questions be asked? Under a separate item for Members' Questions (as with Council) or at the start of the specific agenda item (such as with scrutiny)?
- Does this represent an enhancement of current Members' rights of participation granted under Council Procedure Rule 24 and the relevant protocols?

Option 5A: Speaking on notice to any matter

Features of the proposed model:

- Member participation would be in the form a statement made within the allotted time for Member speaking.
- Risk that the agenda becomes set by the wider Members not the Committee members and may involve matters which are not connected to the Council/Committee's functions or remit.
- Becomes a significant concern that this may offend local government legislation which requires business before the Committee to be specified in the agenda.
- Limited to substantive agenda items (for example, procedural matters such as apologies, appointment of substitutes, minutes and declarations of interest would not be included).
- Potentially increases the duration of the meeting.
- Potentially increases participation for members not appointed to the committee.
- Expected to significantly increase officer workload as the statements could relate to anything and not necessarily the reports on the agenda. It may increase the number of officers required to attend committee meetings as a result.
- Members can already ask speak on any item (public or exempt) on the agenda without notice, subject to the provisions of Council Procedure Rule 24.
- Could lead to enhanced or poorer decision-making.
- Only Members' appointed to a Committee would be permitted to vote on the decision.

Discussion Points:

- How much notice would be required?
Less than 8 days would, in practical terms, mean that the question would not be in the agenda at the time of its publication. Would there be concern that shorter notice would represent a loss of transparency? However, as the agenda is only published at 5 days prior to the meeting a member would not know what was on the agenda at 8 days prior to be able to ask a question. If less than 5 days' notice is given, there would still need to be time allowed for officers to brief the Member answering the question.
- Would there be a limit on the amount of time for Member speaking and/or the number of times a person could speak?
- When in the agenda would Member speaking be held? Under a separate item for Members' Speaking or at the start of the specific agenda item?
- Does this represent an enhancement of current Members' rights of participation granted under Council Procedure Rule 24 and the relevant protocols?

Option 5B: Speaking without notice to any matter

Features of the proposed model:

- Member participation would be in the form a statement made within the allotted time for Member speaking.

- Risk that the agenda becomes set by the wider Members not the Committee members and may involve matters which are not connected to the Council/Committee's functions or remit.
- Becomes a significant concern that this may offend local government legislation which requires business before the Committee to be specified in the agenda.
- Limited to substantive agenda items (for example, procedural matters such as apologies, appointment of substitutes, minutes and declarations of interest would not be included).
- Potentially increases the duration of the meeting.
- Potentially increases participation for members not appointed to the committee.
- Will impose a significant increase in workload for officers as may lead to work after the meeting if questions are to be carried over to next meeting or written response outside of the meeting. May also increase the number of officers required to attend meetings or involved in briefing members/preparing responses.
- Could lead to enhanced or poorer decision-making.
- Members can already ask speak on any item (public or exempt) on the agenda without notice, subject to the provisions of Council Procedure Rule 24.
- Only Members appointed to a Committee would be permitted to vote on the decision.

Discussion Points:

- Would there be a limit on the amount of time for Member speaking and/or the number of times a Member could speak?
- When in the agenda would Member speaking be held? Under a separate item for Members' Speaking or at the start of the specific agenda item?
- Does this represent an enhancement of current Members' rights of participation granted under Council Procedure Rule 24 and the relevant protocols?

Subject:	TREASURY MANAGEMENT YEAR END REPORT
Meeting and Date:	Cabinet – 7th September 2015 Governance – 22nd September 2015
Report of:	Mike Davis – Director of Finance, Housing & Community
Portfolio Holder:	Councillor Mike Connolly – Portfolio Holder for Corporate Resources and Performance
Decision Type:	Non-Key Decision
Classification:	Unrestricted

Purpose of the report:	To provide details of the Council’s treasury management for the financial year ended 31 March 2015 (Q4) and an update of activity to date.
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Recommendation:	That the report is received
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1. Summary

There are three Treasury Management reports on the Cabinet agenda. The first (this report) covers the outturn for the year ending March 2015, and will be included in the Governance agenda.

The second report covers Treasury Management performance for the first quarter of 2016/16 and will also be included in the Governance agenda.

The third report proposes minor amendments to the Treasury Management Strategy in order to address the issues that have arisen following the withdrawal of Investec (the Council’s fund managers) from the separately managed funds market.

As at 31 March 2015, the Council’s in-house investments (approximately £6m or 32% of total investments) and investments with the investment managers, Investec (approximately £12.9m or 68% of total investments) outperformed their benchmark¹. The total interest received for the year was £276k, which means that income for the year was £12k approx. better than the £264k budget.

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

2. Introduction and Background

CIPFA (the Chartered Institute of Public Finance and Accountancy) issued the revised Code of Practice for Treasury Management in November 2009: it recommends that members should be updated on treasury management activities at

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.

least twice a year, but preferably quarterly. This report therefore ensures this council is implementing best practice in accordance with the Code.

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 Advisers, Capita.

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

Council adopted the 2014/15 Treasury Management Strategy on 5 March 2014 as part of the 2014/15 Budget and Medium Term Financial Plan.

3. Annual investment strategy

The investment portfolio as at the end of March is attached at Appendix 2. Since the end of the quarter, another £1 million has been invested with Nationwide for six months at a rate of 0.66% and £5 million has been invested with Close Brothers for 171 days at a rate of 0.70%.

Shortly after the year-end, Investec announced that they were withdrawing from the segregated fund market at the end of June 2015. We were aware that this would create challenges, including requiring the Council to bring the funds held with Investec back in-house. Please also refer to the Q1 TM Update 2015-16 for further information.

The Council's Gilt holding of £1.9 million has been transferred from Investec to Kings and Shaxson, and will be held until its maturity date of July 2018. The balance of the Investec fund was repaid in cash on the 30th June 2015, totalling £11 million approx. This is currently being held in the Council's NatWest SIBA account whilst the treasury management strategy is reviewed, updated and approved to deal with the higher level of in-house funds.

Cash flow funds decreased from £26.9m at 31 December 2014 to £24.6m at 31 March 2015 (see Appendix 2). This decrease reflects the reduced inflow of Council Tax receipts, generally paid over 10 months from April to January, with much lower receipts in February and March, while preceptors on the Collection Fund are paid their shares of Council Tax income evenly over the year. Additionally, the six-monthly repayment of the PWLB loan and interest that was made in March (£2.35m) also impacted cash flow funds. However, the cash flow funds have risen since 31 March 2015 to £37.7m by 31 July 2015, which is largely due to the return of the funds previously held by Investec (see Appendix 4).

The investment manager, Investec, returned higher rates in 2014/15 than those achieved through in-house investments partly due to an improved performance of the Gilts.

4. **Economic background**

The report attached contains information up to the end of March 2015; since then we have received the following update from Capita (please note that their reference to quarters is based on *calendar years*):

Introduction

A mixture of events took place in July, both home and abroad. All eyes were on Greece at the start of the month who missed their first repayment at the end of June, but salvaged a deal in mid-July. George Osborne delivered his first budget of the new parliament with a range of policies, of which some were unanticipated. The rate of expansion in US Non-Farm payrolls eased, leading some market participants to suggest that this could delay Federal Reserve policy action.

George Osborne presented the first Tory Budget for nearly 20 years in the early stages of the month (July). Surprisingly, the policies outlined in the Budget ranged from both right and left leaning measures. Policies such as £12bn of welfare cuts and increasing taxes by more than £6bn were expected from a Chancellor who is free from the compromises of a coalition. However, minimum wage hikes to £7.20 next year reaching £9 in 2020 and crackdowns on £5bn of tax avoidance, including abolishing the right to claim permanent “non-dom” status, were less expected.

The Chancellor purported the deficit should fall 3.7% this year and expected to fall further in the coming years, eventually reaching a surplus in 2019/2020. On the other hand, new growth forecasts by the Office for Budget Responsibility (OBR) were revised down slightly to 2.4% from the 2.5% quoted in March. Finally, the Chancellor increased the tax-free personal allowance in income tax to £11,000 stating it would always rise with national minimum wage in future.

Inflation

CPI figures for June showed inflation fell back to 0%. The drop was brought about by a fall in energy, food, summer clothing and import prices. Further downward pressures on inflation may continue as Brent crude dropped further at the start of July and the UK may face another short period of deflation. Inflation has remained below its 2% target since the close of 2013, but has dropped sharply this year, exacerbated by the falling oil prices in the second half of 2014. However, Bank of England Governor Mark Carney expects price pressures to pick up as this year progresses, as 2014's energy price drops fall out of the calculations. He expects inflation may well return to its 2% target by early 2017.

The MPC kept Bank Rate at 0.5% as expected, with all members voting in favour of the status quo. Despite no inflation, the Bank of England Governor stated that the decision on policy rates will become more finely balanced around the turn of the year as the MPC has taken the view that the UK's low inflation is a temporary phenomenon. These more hawkish comments led to Sterling strengthening against both the dollar and the euro.

Europe

Greece missed its initial payment of €1.6bn to the IMF, which was expected but the expiry of its second bailout programme of €142bn, without a new programme being in place, was less so. Greece held a referendum on 5th July to determine whether the

public agreed with the creditors' demands which resulted in a resounding 'No', pushing the country closer to a 'Grexit'. This raised fears that Greece would default on its upcoming bond payment to the ECB. However, before this happened, a deal was finally reached on the outline terms of a new bailout of potentially €86bn from the troika of ECB, European Commissions and International Monetary Fund (IMF). Ahead of final agreements on the bailout, the European Financial Stability Mechanism provided a €7bn bridging loan to meet its short term debt obligations, namely to the IMF and ECB.

UK Public Finances

The UK recorded its lowest deficit for quarter two in seven years, with borrowing falling from £10.2bn a year earlier to £9.4bn in June. Factors contributing to the fall were gains in income tax receipts and corporation tax, which reached their highest levels at £11.5bn and £1.7bn, respectively. Retail Sales took an unanticipated dip last month due to consumers purchasing fewer household goods. This resulted in the annual rate of spending growth hitting its lowest rate in more than two years. In addition, retail sales volume undershot all forecasts and dropped by 0.2% in June to show its lowest annual growth, of 4%, since September 2014.

Employment

UK unemployment increased for the first time in two years. The number of people in employment fell by 67,000 due to a decline in the amount of people in part-time work. This subsequently caused unemployment to rise to 5.6% in March to May, from 5.5% in the three months to April. On a more positive note, the ONS stated that total earnings, including bonuses displayed their strongest growth in more than five years. Continued improvement in this should help underpin UK growth in coming quarters.

US Data

A large number of Americans left the labour force, causing US job growth to slow in June. Non-farm payrolls increased by 223,000 in the previous month, but 432,000 people dropped out of the labour force. This caused the unemployment rate to fall by 0.2% to 5.3%, its lowest level since April 2008. However, wage growth stalled in the month. Continuing the mixed theme to the data, revisions to previous releases showed 60,000 fewer jobs were created than previously reported in April and May.

In spite of the mixed messages from the data, the Federal Reserve stated that the US economy and jobs market has continued to improve. This added to the possibility of a rate rise in September. Fed officials said the economy overcame a slowdown in the first quarter and this view was backed by the official data release. Even though there had been a decline in the energy sector, Q2 GDP picked up due to increased consumer spending offsetting soft business spending. This saw GDP grow by 2.3% (on an annualised basis) whilst revisions were made to GDP in Q1 from -0.2 to 0.6%.

Interest Rates

Capita has updated its interest rate forecast and now expects the base rate to increase in the second quarter of 2016 rather than the fourth quarter of 2015.

5. **New Borrowing**

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

6. **Debt Rescheduling**

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

7. **Compliance with Treasury and Prudential Limits**

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

8. **Corporate Implications**

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

Comment from the Senior 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. (HR)

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

Appendices

Appendix 1 – Capita treasury management report for quarter four

Appendix 2 – Investment portfolio as at 31 March 2015

Appendix 3 – Borrowing portfolio as at 31 March 2015

Appendix 4 – Investment portfolio as at 31 July 2015

Background Papers

Medium Term Financial Plan 2014/15 – 2016/17

Contact Officer: Stuart Groom, extension 2072

Treasury Management Update

Quarter Ended 31st March 2015

The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (TMSS, annual and midyear reports). This report therefore ensures this Council is implementing best practice in accordance with the Code. (Please note that the references to Q1, Q2, Q3 and Q4 in Appendix 1 are based on the *calendar* year, whereas the covering report is based on the financial year so that Q4 is the period ended 31st March 2015).

1. Economic Background

After strong UK GDP growth in 2013 at an annual rate of 2.7%, and then growth in 2014 of 0.6% in Q1, 0.8% Q2, 0.6% Q3 and 0.6% Q4 (annual rate for 2014 of 2.8% - the strongest rate since 2006), there are good grounds for optimism that the growth rate will increase further during 2015 as the positive effects from the fall in the price of oil feeds through to consumers and other parts of the economy. In its February quarterly Inflation Report, the Bank of England maintained its GDP forecast for 2015 at 2.9%, but revised up its forecasts for 2016 and 2017 to 2.9% and 2.7% respectively, from 2.6% in both years. The main source of upward revisions came from higher consumption growth, which is now expected to accelerate to 3.75% in 2015 due primarily to a 3.5% rise in real post-tax household income growth. Income growth is also supported by solid employment growth and a pick-up in average weekly pay growth of 3.5% in 2014 and 4.0% in 2016 and 2017. Unit labour cost growth is consequently forecast to be 2.0% in 2015 and 2.75% in 2016 which then pushes up the inflation forecast slightly in two years' time to 1.96%, while in three years' time it is forecast at 2.15%.

The American economy is well on track to making a full recovery from the financial crash. GDP quarterly growth rates (annualised) for Q2, Q3 and Q4 of 4.6%, 5.0% and 2.2%, (2.4% for 2014 as a whole), hold great promise for strong growth going forward and for further falls in unemployment. It is therefore confidently predicted that the Federal Open Market Committee will start on the first increase in the Fed funds rate during 2015 and is likely to be ahead of the UK in being the first major western country to raise rates.

As for the Eurozone, on 21 January 2015 the ECB fired its big bazooka in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is currently intended to run initially to September 2016. However, it remains to be seen whether this will have a significant enough effect in terms of boosting growth and employment, though the fall in the price of oil will provide additional support.

2. Interest Rate Forecast

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

	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Bank rate	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	2.00%
5yr PWLB rate	2.20%	2.30%	2.50%	2.60%	2.70%	2.80%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%
10yr PWLB rate	2.80%	3.00%	3.10%	3.20%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%
25yr PWLB rate	3.40%	3.60%	3.80%	3.90%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%	4.70%
50yr PWLB rate	3.40%	3.60%	3.80%	3.90%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%	4.70%

Capita Asset Services undertook a review of its interest rate forecasts after the February Bank of England Inflation Report. On 21 January 2015 the ECB unleashed its €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This gave further impetus to the trend of a rise in bond prices and correspondingly, a fall in bond yields to phenomenally low levels. This trend had started earlier after a proliferation of fears in financial markets around the plunge in the price of oil had caused a flight from equities into bonds and from exposure to the debt and equities of emerging market oil producing countries to safe havens in western countries. These flows were compounded by further fears that Greece could be heading towards an exit from the Euro after the general election on January 25 elected a left wing anti austerity government.

In addition, there has been a sharp increase in confidence in this quarter that the US will start increasing the Fed funds rate by the end of 2015 due to strong GDP growth in 2014 and the rapidly falling unemployment rate. This indicated that the US is now headed towards making a full recovery from the financial crisis of 2008.

The result of the combination of the above factors is that we have seen bond yields plunging to phenomenally low levels, especially in long term yields. This plunge in bond yields was partially reversed towards the end of the quarter. However, these very low levels are unsustainable in the longer term but just how quickly these falls will unwind is hard to predict.

In addition, positive or negative developments on the world political scene could have a major impact in either keeping yields low or prompting them to recover back up again.

This latest forecast includes a move in the timing of the first increase in Bank Rate from quarter 4 of 2015 to quarter 1 of 2016 as a result of the sharp fall in inflation due to the fall in the price of oil and the impact of that on core inflation. The Governor of the Bank of England, Mark Carney, has repeatedly stated that increases in Bank Rate will be slow and gradual. The MPC is concerned about the impact of increases on many heavily indebted consumers, especially when average disposable income is only starting to gradually increase as a result of wage inflation now running marginally above the depressed rate of CPI inflation, though some consumers will not have seen that benefit

come through for them. In addition, whatever party or coalition wins power in the next general election, will be faced with having to implement further major cuts in expenditure and / or increases in taxation in order to eradicate the annual public sector net borrowing deficit.

3. Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2014/15, which includes the Annual Investment Strategy, was approved by the Council on 05/03/2014. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield.

The Council will also aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with highly credit rated financial institutions, using our suggested creditworthiness approach including sovereign credit rating and Credit Default Swap (CDS) overlay information.

Investment rates available in the market have been broadly stable during the quarter and have continued at historically low levels as a result of the ultra-low Bank Rate and other extraordinary measures such as the Funding for Lending Scheme. Funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme. The Council holds **£22m** core cash balances for investment purposes (i.e. funds available for more than one year).

Investment performance for the financial year to 31st March 2015

Benchmark	Benchmark Return	Council Performance	Investment Interest Earned
7 day	0.35	0.54	£276k

As illustrated, the Council outperformed the benchmark by 19 bps. The Council's budgeted investment return for 2014/15 was £264K, and performance for the year was £12k above budget.

4. New Borrowing

The 25 year PWLB target (certainty) rate for new long term borrowing for the quarter fell from 3.90% to 3.40% in early January. This was revised down further to 3.30% after the February Bank of England Inflation report.

No borrowing was undertaken during the quarter.

PWLB certainty rates for the financial year to 31st March 2015

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.08%	1.71%	2.18%	2.85%	2.82%
Date	23/01/2015	02/02/2015	02/02/2015	02/02/2015	02/02/2015
High	1.49%	2.87%	3.66%	4.30%	4.28%
Date	16/07/2014	03/07/2014	20/06/2014	03/04/2014	02/04/2014
Average	1.27%	2.36%	3.08%	3.73%	3.72%

Borrowing in advance of need

This Council has not borrowed in advance of need during the year ended 31st March 2015 and has not borrowed in advance in all of 2014/15.

5. Debt Rescheduling

Debt rescheduling opportunities have been limited in the current economic climate and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010.

No debt rescheduling was undertaken during the quarter.

6. Compliance with Treasury and Prudential Limits

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS.

During the financial year to date the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The prudential and treasury indicators are shown below.

7. Other

Shortly after the year-end, Investec announced that they were withdrawing from the segregated fund market at the end of June 2015. We were aware that this would create challenges, including requiring the Council to bring the funds held with Investec back in-house. Please refer to the Q1 TM Update 2015-16 for further information.

Prudential and Treasury Indicators as at 31st March 2015

Treasury Indicators	2014/15 Budget £'000	Quarter 4 Actual £'000
Authorised limit for external debt	113,500	113,500
Operational boundary for external debt	108,000	108,000

Maturity structure of fixed rate borrowing - upper and lower limits		
Under 12 months	1,971	1,971
12 months to 2 years	3,070	3,070
2 years to 5 years	6,592	6,592
5 years to 10 years	12,467	12,467
10 years and above	69,753	69,753

Prudential Indicators	2014/15 Budget £'000	Quarter 4 Actual £'000
Capital expenditure *	15,758	9,648
Capital Financing Requirement (CFR) *	98,233	92,082

Investec Funds as at 31/03/15 - In-house as at 31/03/15
APPENDIX 2

Organisation	Type of investment	Current rating	Maturity date	Market yield %	Book cost	Government Sovereign Debt rating	Options available
Investec Investments							
Svenska Handelsbanken	Certificate of deposit	AA-/F1+/1	03/06/2015	0.480	2,400,000	Sweden - Gov 'AAA'	
Bank of Nova Scotia	Certificate of deposit	A/F1/1	15/06/2015	0.500	2,400,000	Canada - Gov 'AAA'	
Rabobank	Certificate of deposit	A+/F1+/1	28/09/2015	0.480	2,500,000	Netherlands - Gov 'AAA'	
CSFB (Credit Suisse First Boston)	Certificate of deposit	AA-/F1+/1	03/06/2015	0.500	1,200,000	UK - Gov 'AA+'	
Nationwide	Certificate of deposit	AA-/F1+/1	16/04/2015	0.500	1,200,000	UK - Gov 'AA+'	
					9,700,000		
United Kingdom	Commercial Paper		15/06/2015	0.460	299,254		
United Kingdom	Gilt		22/07/2018	1.010	1,877,360		
United Kingdom	Commercial Paper		26/05/2015	0.480	997,549		
ANZ Bank			01/04/2014	0.250	79,368		

GBP cash - settled balance
GBP cash - outstanding settlements

4,114
12,957,646

In-house Investments - Portfolio

							Duration
Lloyds	Term deposit	A/F1/1	17/12/2015	1.000	3,000,000	UK - Gov 'AA+'	364 days
BOS	Bond	A/F1/1	07/11/2015	1.000	1,000,000	UK - Gov 'AA+'	364 days
Lloyds	Term deposit	A/F1/1	30/01/2016	1.000	2,000,000	UK - Gov 'AA+'	364 days
Nationwide	Fixed term deposit	A/F1/1	23/08/2015	0.660	3,000,000	UK - Gov 'AA+'	185 days

9,000,000

Total Portfolio

21,957,646

Cashflow
Call Accounts/MMF (as at 31/03/15)

		Rate
DMA	0	
Global Treasury Fund	4,550,106	0.39%
SIBA	4,733,760	0.25%
SIBA SEEDA	55,856	0.10%
SIBA HCA	47,574	0.10%
SIBA ASDA	11,060	0.10%
Santander	5,041,087	0.80%
BoS	5,114,839	0.40%
Barclays	5,063,872	0.62%
Abbey	1	
Total Cash flow	<u>24,618,154</u>	

Total Portfolio and Cashflow

46,575,801

Interest Type	Date Loan Taken Out	Date Loan Matures	Repayment Dates	Loan Number	Principal Balance 01-Apr-14	Interest Rate %	Principal To Be Repaid 2014/15	Annual Interest 2014/15	Lender	Type of loan
Fixed	02/10/1997	02/10/2057	APR-OCT	479961	1,000,000	6.75		67,500	PWLB	Principal due on maturity
Fixed	28/05/1997	28/05/2057	MAY-NOV	479542	2,000,000	7.38		147,500	PWLB	Principal due on maturity
Fixed	23/08/1946	23/06/2026	JUNE-DEC	131582	602	2.50	22.32	15	PWLB	Equal installment of principal
Fixed	27/09/1946	27/06/2026	JUNE-DEC	131583	113	2.50	4.20	3	PWLB	Equal installment of principal
Fixed	16/11/2001	30/09/2026	SEPT-MAR	486237	1,000,000	4.75		47,500	PWLB	Principal due on maturity
Variable	16/12/2002	16/12/2042	JUNE-DEC	NA	3,000,000	4.75		142,500	KA Finanz AG	Repayable if called by bank
Fixed	26/03/2012	26/03/2042	SEPT-MAR	499853	86,735,500	3.18	1,959,070.53	2,742,737	PWLB	Annuity
Fixed	01/05/2012	01/11/2027	MAY-NOV		113,225	0.00	4,354.80	0	Lawn Tennis Association	Interest free
Fixed	01/03/2011	31/12/2014	MAR-SEP		3,096	0.00		0	Salix	Interest free
					93,852,536		1,963,452	3,147,755		

In-house as at 31/07/15

APPENDIX 4

Organisation	Type of investment	Current rating	Maturity date	Market yield %	Book cost	Government Sovereign Debt rating	Options available
Held in Custody at Kings and Shaxon							
United Kingdom	Gilt		22/07/2018	1.010	1,910,000		
					<u>1,910,000</u>		

In-house Investments - Portfolio

							Duration
Lloyds	Term deposit	A/F1/1	17/12/2015	1.000	3,000,000	UK - Gov 'AA+'	364 days
BOS	Bond	A/F1/1	07/11/2015	1.000	1,000,000	UK - Gov 'AA+'	364 days
Lloyds	Term deposit	A/F1/1	30/01/2016	1.000	2,000,000	UK - Gov 'AA+'	364 days
Nationwide	Fixed term deposit	A/F1/1	23/08/2015	0.660	3,000,000	UK - Gov 'AA+'	185 days
Close Brothers	Fixed term deposit	A/F1/1	18/12/2015	0.700	5,000,000	UK - Gov 'AA+'	171 days
Nationwide	Fixed term deposit	A/F1/1	01/07/2015	0.660	1,000,000	UK - Gov 'AA+'	185 Days

15,000,000

Total Portfolio

16,910,000

Cashflow

Call Accounts/MMF (as at 31/07/15)

		Rate
DMA	0	
Global Treasury Fund	4,550,106	0.39%
SIBA	17,498,447	0.25%
SIBA SEEDA	55,856	0.10%
SIBA HCA	47,574	0.10%
SIBA ASDA	11,060	0.10%
Santander	5,041,087	0.80%
BoS	5,114,839	0.40%
Barclays	5,063,872	0.62%
Abbey	1	
Total Cash flow	<u>37,382,841</u>	

Total Portfolio and Cashflow

54,292,841

Subject:	TREASURY MANAGEMENT QUARTER ONE REPORT 2015/16
Meeting and Date:	Cabinet – 7th September 2015 Governance – 22nd September 2015
Report of:	Mike Davis – Director of Finance, Housing & Community
Portfolio Holder:	Councillor Mike Connolly – Portfolio Holder for Corporate Resources and Performance
Decision Type:	Non-Key Decision
Classification:	Unrestricted

Purpose of the report:	To provide details of the Council’s treasury management for the quarter ended 30 June 2015 (Q1) and an update of activity to date.
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Recommendation:	That the report is received
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1. Summary

As at 30 June 2015, the Council’s in-house investment portfolio totalled £15.9m (see Appendix 2). This includes some of the funds returned from Investec following their withdrawal from the segregated fund market, although the majority of the returned funds are sitting in overnight cash balances with our operating bank. This has resulted in us exceeding our deposit limits with our operating bank, and therefore breaching our Treasury Management Strategy Statement (TMSS) pending an update of our TMSS to deal with the higher level of in-house funds available for investment.

It is expected that we will increase the sum regarded as “investment portfolio” (as opposed to cashflow funds), which was previously at £22m approx., as part of revising our TMSS and reviewing our cashflow needs following the return of the funds from Investec.

The Council’s investment return for the quarter was 0.52%, which outperformed the benchmark¹ by 0.16%. However, while the Council’s budgeted investment return for 2015/16 is £333k, performance for the year is estimated to be £292k, which is £41k below budget. This is partly due to the limitations on size of deposits permissible within the current Treasury Management Strategy (TMSS), the on-going pressure on interest rates, and the reduction in deposit durations permissible for part nationalised banks following revisions to credit ratings.

The Council has remained within Prudential Code guidelines during the period.

2. Introduction and Background

(Please see the same section in the Treasury Management Year End report, also on the agenda, for more information.)

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.

Council adopted the 2015/16 Treasury Management Strategy Statement (TMSS) on 4 March 2015 as part of the 2015/16 Budget and Medium Term Financial Plan.

The Revised 2015/16 Treasury Management Strategy which is also on the Cabinet agenda has been produced in response to the withdrawal, by the Council's fund managers, Investec, from the local authority segregated funds market, resulting in the return of funds from Investec, leaving the Council holding additional sums.

These are currently held in low risk overnight, instant access deposit accounts with the Council's operating bank. The risks are minimal, but nevertheless the deposits do exceed the deposit limits within the current TMSS. In addition there is a small loss of income as these are low interest accounts.

3. Annual investment strategy

At the end of June, Investec withdrew from the segregated fund market and returned the majority of funds to DDC, with the exception of the Gilts stock, which was transferred to King & Shaxson as custodians. We were aware that this would create challenges, including requiring the Council to bring the funds held with Investec back in-house. It has been necessary to revise the Treasury Management Strategy for 2015/16 to provide sufficient scope to spread the investment risk across a sufficiently wide number of banks and institutions.

The Gilt holding of £1.9 million transferred to King and Shaxson will be held until its maturity date of July 2018. The balance of the Investec funds, which were repaid in cash on 30th June 2015, totalling £11 million approx., is currently being held in the Council's NatWest SIBA account whilst the treasury management strategy is reviewed, updated and approved to deal with the higher level of in-house funds.

The investment portfolio as at the end of June is attached at Appendix 2. Since the end of the quarter, another £1 million has been invested with Nationwide for six months at a rate of 0.66% and £5 million has been invested in a money market fund with Standard Life Investments on 12th August at a rate of 0.47%. We are in the process of opening an account with HSBC to place further funds, currently in our operating bank's overnight (SIBA) account at low interest rates, in order to spread risk and earn higher returns.

Cash flow funds increased from £24.6m at 31 March 2015 to £35.4m at 30 June 2015 (see Appendix 2), which is largely due to the return of the funds previously held by Investec. The cash flow funds have risen further since 30 June 2015 to £37.4m by 31 July 2015, which reflects the increased inflow of Council Tax receipts, generally paid over 10 months from April to January, while preceptors on the Collection Fund are paid their shares of Council Tax income evenly over the year which causes some building of cash balances until February/March (see Appendix 4).

4. Economic background

Please see the same section in the Treasury Management Year End report, also on the agenda, for the economic background.

5. **Net Borrowing**

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

6. **Debt Rescheduling**

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

7. **Compliance with Treasury and Prudential Limits**

The Council has operated within the Prudential Indicators in compliance with the Council's Treasury Management Practices, but has exceeded the level of permissible deposit with its own operating bank, NatWest, albeit in a low risk instant-access overnight deposit account. As mentioned above, it has been necessary to revise the Treasury Management Strategy Statement for 2015/16 to provide sufficient scope to spread the investment risk across a sufficiently wide number of banks and institutions.

The revised TMSS will be presented to Cabinet for approval at the same time as this report.

8. **Corporate Implications**

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

Comment from the Senior 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. (HR)

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

Appendices

Appendix 1 – Capita treasury management report for quarter one

Appendix 2 – Investment portfolio as at 30 June 2015

Appendix 3 – Borrowing portfolio as at 30 June 2015

Appendix 4 – Investment portfolio as at 31 July 2015

Background Papers

Medium Term Financial Plan 2014/15 – 2016/17

Contact Officer: Stuart Groom, extension 2072

Treasury Management Update

Quarter Ended 30th June 2015

The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (TMSS, annual and midyear reports). This report, therefore, ensures this Council is implementing best practice in accordance with the Code. (Please note that the references to Q1, Q2, Q3 and Q4 in Appendix 1 are based on the *calendar* year, whereas the covering report is based on the financial year so that Q1 is the period ended 30th June 2015).

1. Economic Background

After strong UK GDP growth in 2013 at an annual rate of 2.7% and 3.0% in 2014, quarter 1 of 2015 was disappointing at only 0.4%, though subsequent data indicates that this could well be revised up further down the line and also indicates a return to stronger growth in quarter 2. In its May quarterly Inflation Report, the Bank of England reduced its GDP forecast for 2015 from 2.9% to 2.5% and from 2.9% to 2.7% in 2016, while increasing its forecast for 2017 from 2.4% to 2.7%.

Uncertainty around the likely result of the UK general election in May has obviously now evaporated although this has been replaced by some uncertainty around the potential impact on the UK economy of the EU referendum promised by, or in, 2017. In addition, the firm commitment of the Conservative Government to eliminating the deficit within the term of this Parliament will have an impact on GDP growth rates. However, the MPC is fully alert to this and will take that into account, and also the potential spill over effects from the Greek crisis, in making its decisions on the timing of raising Bank Rate.

As for the American economy, confidence has improved markedly in this quarter that the US will start increasing the Fed funds rate by the end of 2015 due to a return to strong economic GDP growth after a disappointing start to the year in quarter 1, (a contraction of 0.2%), after achieving 2.4% growth in 2014.

In the Eurozone, the ECB, in January 2015 unleashed a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This already appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to a significant improvement in economic growth, though it remains to be seen whether this will have an enduring effect as strong as the recovery in the US and UK.

2. Interest Rate Forecast

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

	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Bank rate	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%
5yr PWLB rate	2.30%	2.40%	2.50%	2.60%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%
10yr PWLB rate	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.70%	3.80%	3.90%	4.00%	4.10%
25yr PWLB rate	3.60%	3.70%	3.80%	4.00%	4.10%	4.20%	4.30%	4.40%	4.40%	4.50%	4.60%
50yr PWLB rate	3.60%	3.70%	3.80%	4.00%	4.10%	4.20%	4.30%	4.40%	4.40%	4.50%	4.60%

Capita Asset Services undertook a review of its interest rate forecasts after the May Bank of England Inflation Report. The ECB's quantitative easing programme to buy up EZ debt caused an initial widespread rise in bond prices and, correspondingly, a fall in bond yields to phenomenally low levels, including the debt of some European countries plunging into negative yields. Since then, fears about recession in the EZ, and around the risks of deflation, have abated and so there has been an unwinding of this initial phase with bond yields rising back to more normal, though still historically low yields.

This latest forecast includes a move in the timing of the first increase in Bank Rate from quarter 1 of 2016 to quarter 2 of 2016 as a result primarily of poor growth in quarter 1, weak wage inflation and the recent sharp fall in inflation due to the fall in the price of oil and the impact of that on core inflation. The UK fell marginally into deflation in April (-0.1%) and figures near zero will prevail for about the next six months until the major fall in oil prices in the latter part of 2014 falls out of the twelve month calculation of CPI inflation. The Governor of the Bank of England, Mark Carney, has repeatedly stated that increases in Bank Rate will be slow and gradual. The MPC is concerned about the impact of increases on many heavily indebted consumers, especially when average disposable income is only just starting a significant recovery as a result of recent increases in the rate of wage inflation, though some consumers will not have seen that benefit come through for them.

3. Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2015/16, which includes the Annual Investment Strategy, was approved by the Council on 04/03/2015. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield.

The Council will also aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with highly credit rated financial institutions, using our suggested creditworthiness approach, including a minimum sovereign credit rating, and Credit Default Swap (CDS) overlay information.

Investment rates available in the market have been broadly stable during the quarter and have continued at historically low levels as a result of the ultra-low Bank Rate and other extraordinary measures such as the Funding for Lending Scheme. Funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme. The Council holds **£22m** core cash balances for investment purposes (i.e. funds available for more than one year). However, only £16m are shown as portfolio/core balances on Appendix 2 at 30th June, as the majority of funds returned by Investec are being held in short-term call accounts pending review of TMSS and proposed placement with other institutions for longer durations, subject to suitable credit criteria.

Investment performance for quarter ended 30th June 2015

Benchmark	Benchmark Return	Council Performance	Investment Interest Earned
7 day	0.36	0.52%	£69k

As illustrated, the Council outperformed the benchmark by 16 bps. However, while the Council's budgeted investment return for 2015/16 is £333k, performance for the year is estimated to be £292k, which is £41k below budget.

4. New Borrowing

The 25 year PWLB target (certainty) rate for new long term borrowing, for the quarter ending 30th June, rose slightly from 3.40% to 3.50% after the May Bank of England Inflation report.

No borrowing was undertaken during the quarter.

PWLB certainty rates, quarter ended 30th June 2015

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.11%	1.82%	2.40%	3.06%	3.01%
Date	02/04/2015	02/04/2015	02/04/2015	02/04/2015	02/04/2015
High	1.33%	2.32%	3.04%	3.65%	3.55%
Date	25/06/2015	25/06/2015	10/06/2015	24/06/2015	04/06/2015
Average	1.23%	2.09%	2.75%	3.37%	3.29%

Borrowing in advance of need

This Council has not borrowed in advance of need during the quarter ended 30th June 2015.

5. Debt Rescheduling

No debt rescheduling was undertaken during the quarter.

6. Compliance with Treasury and Prudential Limits

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS.

During the financial year to date the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The prudential and treasury Indicators are shown below.

7. Other

Investec have withdrawn from the segregated investment fund market and on 30 June 2015 returned the Council's investment of £11m approx. A further £1.9m in Gilts was separately transferred to King and Shaxson to be held until maturity in 2018.

The treasury management strategy is currently being revised to take account of the higher level of in-house funds to be managed by DDC, and it is proposed to update credit criteria and deposit limits to enable further funds to be placed with highly-credit rated institutions, at low risk, to enable higher returns with a view to minimising any further shortfall of investment income against budget in 2015/16.

Prudential and Treasury Indicators as at 30th June 2015

Treasury Indicators	2015/16 Budget £'000	Quarter 1 (Apr-Jun) Actual £'000
Authorised limit for external debt	113,500	113,500
Operational boundary for external debt	108,000	108,000

Maturity structure of fixed rate borrowing - upper and lower limits		
Under 12 months	2,086	2,086
12 months to 2 years	3,256	3,256
2 years to 5 years	6,993	6,993
5 years to 10 years	13,232	13,232
10 years and above	64,188	64,188

Prudential Indicators	2015/16 Budget £'000	Quarter 1 (Apr-Jun) Actual £'000
Capital expenditure *	13,693	2,525
Capital Financing Requirement (CFR) *	98,233	92,082

Investec Funds as at 30/06/15 - In-house as at 30/06/15

APPENDIX 2

Organisation	Type of investment	Current rating	Maturity date	Market yield %	Book cost	Government Sovereign Debt rating	Options available
Held in Custody at Kings and Shaxon							
United Kingdom	Gilt		22/07/2018	1.010	1,910,000		
					1,910,000		

In-house Investments - Portfolio

	Type of investment	Current rating	Maturity date	Market yield %	Book cost	Government Sovereign Debt rating	Duration
Lloyds	Term deposit	A/F1/1	17/12/2015	1.000	3,000,000	UK - Gov 'AA+'	364 days
BOS	Bond	A/F1/1	07/11/2015	1.000	1,000,000	UK - Gov 'AA+'	364 days
Lloyds	Term deposit	A/F1/1	30/01/2016	1.000	2,000,000	UK - Gov 'AA+'	364 days
Nationwide	Fixed term deposit	A/F1/1	23/08/2015	0.660	3,000,000	UK - Gov 'AA+'	185 days
Close Brothers	Fixed term deposit	A/F1/1	18/12/2015	0.700	5,000,000	UK - Gov 'AA+'	171 days

14,000,000

Total Portfolio

15,910,000

Cashflow

Call Accounts/MMF (as at 30/06/15)

		Rate
DMA	0	
Global Treasury Fund (Goldman Sachs)	4,550,106	0.39%
SIBA	15,485,447	0.25%
SIBA SEEDA	55,856	0.10%
SIBA HCA	47,574	0.10%
SIBA ASDA	11,060	0.10%
Santander	5,041,087	0.80%
BoS	5,114,839	0.40%
Barclays	5,063,872	0.62%
Abbey	1	
Total Cash flow	35,369,841	

Total Portfolio and Cashflow

51,279,841

Investec investment returned 30/06/15 totaling £11,085,984.98, excl. value of Gilts

Interest Type	Date Loan Taken Out	Date Loan Matures	Repayment Dates	Loan Number	Principal Balance 01-Apr-15	Interest Rate %	Principal To Be Repaid 2015/16	Annual Interest 2015/16	Lender	Type of loan
Fixed	02/10/1997	02/10/2057	APR-OCT	479961	1,000,000	6.75		67,500	PWLB	Principal due on maturity
Fixed	28/05/1997	28/05/2057	MAY-NOV	479542	2,000,000	7.38		147,500	PWLB	Principal due on maturity
Fixed	23/08/1946	23/06/2026	JUNE-DEC	131582	513	2.50	44.64	13	PWLB	Equal installment of principal
Fixed	27/09/1946	27/06/2026	JUNE-DEC	131583	96	2.50	8.40	2	PWLB	Equal installment of principal
Fixed	16/11/2001	30/09/2026	SEPT-MAR	486237	1,000,000	4.75		47,500	PWLB	Principal due on maturity
Variable	16/12/2002	16/12/2042	JUNE-DEC	NA	3,000,000	4.75		142,500	KA Finanz AG	Repayable if called by bank
Fixed	26/03/2012	26/03/2042	SEPT-MAR	499853	84,776,429	3.18	2,021,864.25	2,679,943	PWLB	Annuity
Fixed	01/05/2012	01/11/2027	MAY-NOV		104,515	0.00	8,709.60	0	Lawn Tennis Association	Interest free
					91,881,554		2,030,627	3,084,958		

In-house as at 31/07/15

APPENDIX 4

Organisation	Type of investment	Current rating	Maturity date	Market yield %	Book cost	Government Sovereign Debt rating	Options available
Held in Custody at Kings and Shaxon							
United Kingdom	Gilt		22/07/2018	1.010	1,910,000		
					<u>1,910,000</u>		

In-house Investments - Portfolio

							Duration
Lloyds	Term deposit	A/F1/1	17/12/2015	1.000	3,000,000	UK - Gov 'AA+'	364 days
BOS	Bond	A/F1/1	07/11/2015	1.000	1,000,000	UK - Gov 'AA+'	364 days
Lloyds	Term deposit	A/F1/1	30/01/2016	1.000	2,000,000	UK - Gov 'AA+'	364 days
Nationwide	Fixed term deposit	A/F1/1	23/08/2015	0.660	3,000,000	UK - Gov 'AA+'	185 days
Close Brothers	Fixed term deposit	A/F1/1	18/12/2015	0.700	5,000,000	UK - Gov 'AA+'	171 days
Nationwide	Fixed term deposit	A/F1/1	01/07/2015	0.660	1,000,000	UK - Gov 'AA+'	185 Days

15,000,000

Total Portfolio

16,910,000

Cashflow

Call Accounts/MMF (as at 31/07/15)

		Rate
DMA	0	
Global Treasury Fund (Goldman Sachs)	4,550,106	0.39%
SIBA	17,498,447	0.25%
SIBA SEEDA	55,856	0.10%
SIBA HCA	47,574	0.10%
SIBA ASDA	11,060	0.10%
Santander	5,041,087	0.80%
BoS	5,114,839	0.40%
Barclays	5,063,872	0.62%
Abbey	1	
Total Cash flow	<u>37,382,841</u>	

Total Portfolio and Cashflow

54,292,841

Subject: **QUARTERLY INTERNAL AUDIT UPDATE REPORT**

Meeting and Date: **Governance Committee – 22nd September 2015**

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 June 2015.

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, together with details of the performance of the EKAP to the 30th June 2015.

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 seven Internal Audit reports that have been completed during the period, of which two reviews were classified as providing Substantial Assurance, and four as Reasonable Assurance. There was one additional piece of work for which an assurance level was not applicable as it comprised quarterly housing benefit claim testing. Summaries of the report findings and the recommendations made are detailed within Appendix 1 to this report.
- 2.8 In addition two follow-up reviews have been completed during the period, which are detailed in section 3 of the quarterly update report.
- 2.9 For the three-month period to 30th June 2015, 40.48 chargeable days were delivered against the planned target of 271.32, which equates to 15% 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 2015-16 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 2015-16 - Previously presented to and approved at the 26th March 2015 Governance Committee meeting.
- Internal Audit working papers - Held by the East Kent Audit Partnership.

Contact Officer: Christine Parker, Head of 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 31st December 2014.

2. SUMMARY OF REPORTS:

	Service / Topic	Assurance level
2.1	EKS – Housing Benefit Appeals	Substantial
2.2	EKS – Housing Benefit Discretionary Housing Payments	Substantial
2.3	EKS – PC and Laptop Controls	Reasonable
2.4	EKS – ICT File Controls and Back-ups	Reasonable
2.5	East Kent Housing – Contract Standing Order Compliance	Reasonable
2.6	Your Leisure	Reasonable
2.7	EK Services – Quarterly Housing Benefit Testing (Quarter 4 of 2014-15)	Not Applicable

2.1 EKS Housing Benefit Appeals – Substantial Assurance.

2.1.1 Audit Scope

To ensure that the processes and procedures established by EKS are sufficient to provide the level of service required by the partner councils and these incorporate relevant internal controls to ensure that EKS undertakes appeals by members of the public against their Housing Benefit awards in a fair and consistent manner and in line with Housing Benefit guidance from the DWP.

2.1.2 Summary of Findings

The Housing Benefit (Decision and Appeals) Regulations 2001 state that any 'person affected' by a relevant decision can ask the Council to revise its decision. It also states that a person affected can appeal against the decision of a Local Authority to an independent appeal tribunal (the First-tier Tribunal).

The processes in place for dealing with the appeals received by EKS reflect the guidance issued by the DWP.

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

- A central record is maintained of all appeals received and this is monitored.
- There are effective controls in place to ensure that appeals are dealt with expediently.
- EK Services have allocated specific officers to process appeals and to ensure that they are administered in accordance with government legislation.

2.2 EKS Housing Benefit Discretionary Housing Payments – Substantial Assurance.

2.2.1 Audit Scope

To ensure that the processes and procedures established by EKS are sufficient to provide the level of service required by the partner councils and these incorporate relevant internal controls regarding the provision of additional financial assistance to claimants who are already receiving either Housing Benefit or Council Tax Benefit, and who are experiencing particular financial hardship with regard to paying the shortfall of housing rent or council tax by the evaluation of, and then approval or rejection of applications.

2.2.2 Summary of Findings

Discretionary housing payments were introduced in 2001 as part of the Discretionary Financial Assistance regulations. The regulations provide Local Authorities with the right to award further assistance towards housing benefit. The regulations were updated in April 2014 to reflect the changes in the housing benefit legislation.

Each local authority receives a government contribution towards the discretionary housing payment scheme. Discretionary housing payment can be applied for to assist with rent in advance, rent deposits, rent arrears and shortfalls in rent levels. There are specific officers within the Quality Team that deal with the administration and processing of the discretionary hardship applications.

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

- There is an approved policy in place for the administration of discretionary housing payments and this reflects central government guidance.
- A central record is maintained of all applications received and this is monitored regularly.
- There are effective controls in place to monitor the value of discretionary housing payment granted.
- Specific officers have been allocated to process applications for discretionary housing payment. Any decision appeals are reviewed and adjudicated by the Quality Team Leader.

2.3 EKS – PC & Laptop Controls – Reasonable Assurance.

2.3.1 Audit Scope

To ensure that the procedures and internal controls established by EKS are sufficient to provide the level of service required by the partner Councils with regard to the control of the use of computers both by officers of EKS and the partner councils.

2.3.2 Summary of Findings

EKS provides the ICT service to the three East Kent partner councils as well as to East Kent Housing. The service is detailed in the collaboration agreement between the various parties. This includes the provision, but not the funding, of the hardware equipment such as PCs, laptops and smart devices, their management and maintenance. Early in 2014 EK Services were involved in a project concerning a large scale equipment roll out across the partners which was to be achieved by a specified deadline and involved many hundreds of machines and users.

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

- There is an approved agreement between the EK Services and the partners.
- The recent roll out of equipment has brought the asset base of computers up to date.
- There is various guidance and policies setting out the expectations required of users.
- There are security measures and encryptions in place to restrict access to the equipment and data available via remote connections.

There are however some areas which could be improved and these are as follows:-

- The sharing of best practice guidance.
- Reminding users of their responsibilities regarding machines and data.
- Health and safety issues regarding portable ICT assets.

2.4 EKS ICT File Controls and Back-ups – Reasonable Assurance.

2.4.1 Audit Scope

To ensure that the controls over the administration of ICT electronic files and back-ups are robust and sufficient to enable EKS to provide the level of ICT service required by the partner councils.

2.4.2 Summary of Findings

EKS ICT are responsible for the provision of technical and business ICT systems to three partner local authorities and East Kent Housing. This shared service was formed in 2012 and is hosted by Thanet DC.

Business Systems includes the delivery of a range of services using multiple software systems running on the EK Services managed infrastructure and in the case of internet sites, hosted externally for some clients.

Technical Systems includes the provision of a secure network & telecommunications infrastructure and server computing environment through which ICT services & solutions are provided; this includes the desktop computer environment for around 1800 staff and the ICT Service Desk.

The service is governed by the way of a Collaboration Agreement and yearly Service Level Agreements. Both documents have recently been re-drafted to give a more comprehensive overview of the service delivery expected and required by each partner.

At the start of the review there were weaknesses in the system of internal controls in operation. However, due to the improvements implemented during the audit it can conclude Reasonable Assurance.

The primary findings which gave rise to the Reasonable assurance opinion in this area are as follows:

- Policies and Procedures governing file controls and back-ups were out of date, this was addressed via the introduction of the Corporate Information Governance Group (CIGG) who have been tasked with agreeing and introducing these which will be implemented across all partner councils
- Access and password control needed to be controlled and documented and the risk of Password cycling within each business unit is being addressed and a project for change control is collaboratively being undertaken.
- The current Back-up regime needed to be documented and improved and the new back-up project has now been completed and should adequately address any findings relating to back-ups raised during this review.

Effective control was evidenced in the following areas:

- Business Continuity and Disaster Recovery, and this has also been enhanced by the new back-up project.
- Identification of key systems and risks accompanied with the setting up and use of focus groups (i.e. ICT user group and CIGG) to aid with the decision process and service delivery.

2.5 East Kent Housing CSO Compliance – Reasonable Assurance.

2.5.1 Audit Scope

To ensure that East Kent Housing apply the Council's practices for the procurement of goods and services, achieves economic cost and good value for money and that Contract Standing Orders and the guidance and supporting procurement practices and user instructions are relevant and complied with as appropriate.

2.5.2 Summary of Findings

The purpose of the Contract Standing Orders (CSOs) is to provide a structure within which procurement decisions are made and implemented. This is to ensure that resources are used efficiently, value for money is sought, corporate objectives are met, and transparency is evident. The CSOs specify financial limits which determine, prior to purchase, the number of quotes that must be obtained or whether a full tender process should be followed. In addition, high value tenders for works and services are governed by EU procurement laws and must be advertised in the OJEU (Official Journal of the European Community). The EU financial thresholds as at January 2014 are: supplies and services £172,515 and works £4,322,012. These thresholds are revised every two years.

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

- Officers are mindful of the CSOs and often seek three quotes regardless of the value;
- Many framework agreements are in place;
- The Procurement Initiation Form (PIF) has been harmonised across the four authorities;
- Two surveyors represent East Kent Housing at regular LA procurement meetings; and
- Spending officers have been provided with CSOs/procurement guides (versions not verified).

Scope for improvement was however identified in the following areas:

- Reminder needed that lowest price is not the only consideration when selecting a supplier;
- Clarification and training required on the 'aggregation' rule;
- It would be helpful if LA Procurement Officers monitored accumulating spend against single suppliers and highlighted this to the procuring officers at EKH;
- Harmonising of procurement requirements/processes across the LAs would improve efficiency at EKH.
- Earlier involvement of LAs in procurement process especially when using South East Consortium

2.6 Your Leisure – Reasonable Assurance.

2.6.1 Audit Scope

To ensure that Your Leisure are operating the Council's indoor leisure centres, outdoor leisure facilities and catering venues in accordance with the provisions contained within their leases and associated grant condition agreements; and that as a result the Council's leisure arrangements are economic, efficient and effective in meeting the needs of the residents of the district of Dover.

2.6.2 Summary of Findings

Your Leisure is the merger of two local companies that provide leisure and facility management to two local authorities for which they receive grant funding to carry out the functions. The two companies that merged in April 2013 were Thanet Leisure Force and Vista Leisure.

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

- A funding agreement has been put in place (dated 25th March 2013) between Dover District Council and Your Leisure. This funding agreement is now into its 3rd year (2015/16). For each of the first 3 years the funding is £265,000 per annum paid in advance on 1st April at the start of the financial year. Processes are also documented within the funding agreement as to the timetable for the next funding agreement to be put in place.
- Leases were put in place in September 2010 which have been reassigned to Your Leisure with supporting equipment schedules. However, the schedules

have not been updated to reflect changes in equipment over the past 4 and a half years

- For 2015/16 there is a £282,200 budget in the capital programme for repairs and replacement of plant and equipment at the Leisure centres. For any general repairs and maintenance this would come out of the corporate maintenance budget. For the Walmer paddling pool any maintenance would be paid for from the corporate maintenance budget. In 2014/15 £30,000 was spent from the special project reserve to reline the pool and this year there is a proposed project of £35,000 for security at the pool.

Scope for improvement was however identified in the following areas:

- Regular operational meetings are held between the Council and Your Leisure and there are minutes in place for these meetings with the Council and Your Leisure taking turns to produce the minutes. Although the minutes show officers that have been tasked to deal with the various actions they do not show a target date for completion for each action. Also the Strategic meetings do not have formal minutes in place just notes provided of the general outcomes. There is therefore a need for these meetings to be recorded in a more formal manner to ensure that both parties are in agreement with the outcomes and the actions to be carried out and when they have to be carried out and by whom.
- Performance and financial information is provided by Your Leisure. However, this could be further enhanced by having in place more meaningful customer satisfaction statistics, as based on the number of users of the various facilities for quarters 1 to 3 for 2014/15 (336,416) only 0.0025% have made a comment on cards or the website and from this there are statements being made of reasonably high levels of customer satisfaction being in place.
- Within the lease agreements it states that Your Leisure should provide copies of their insurance certificates to confirm that they have the correct public liability insurance and also that they are insuring the fixed and portable equipment. The Principal Leisure Officer has confirmed that she has not seen these documents and also the Insurance Officer has not seen copies of the documentation. Copies of this documentation should be requested annually to ensure that Your Leisure is complying with the lease agreements.

2.7 EK Services – Housing Benefit Quarterly Testing (Quarter 4 of 2014-15):

2.7.1 Background:

Over the course of 2014/15 financial year the East Kent Audit Partnership has been completing a sample check of Council Tax, Rent Allowance and Rent Rebate and Local Housing Allowance benefit claims.

2.7.2 Findings:

For the fourth quarter of 2014/15 financial year (January to March 2015) 30 claims including new and change of circumstances of each benefit type were selected by randomly selecting the various claims for verification.

A fail is categorised as an error that impacts on the benefit calculation. However, data quality errors are also shown but if they do not impact on the benefit calculation then for reporting purposes the claim will be recorded as a pass.

2.7.3 Audit Conclusion:

Thirty benefit claims were checked and none had financial errors that impacted on the benefit calculation. Two of the claims that passed did so because the errors which were highlighted did not affect the benefit calculation.

3.0 FOLLOW UP OF AUDIT REPORT ACTION PLANS:

- 3.1 As part of the period's work, two 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)	EKS – Customer Services	Substantial	Substantial	H	1	H	0
				M	3	M	2
				L	1	L	1
b)	EKS – ICT Change Controls	Limited	Reasonable	H	2	H	0
				M	1	M	0
				L	0	L	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: VAT, Community Safety, Housing Allocations, Absence Management, Employee Health and Safety, Public Health Burials, Grounds Maintenance, Dover Museum and VIC, Environmental Protection Service Requests, Sheltered Housing, and Housing Repairs Maintenance and Void Management.

5.0 CHANGES TO THE AGREED AUDIT PLAN:

- 5.1 The 2015-16 Audit plan was agreed by Members at the meeting of this Committee on 26th March 2014.
- 5.2 The Head of the Audit Partnership meets on a regular 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 three-month period to 30th June 2015, 40.48 chargeable days were delivered against the planned target of 271.32, which equates to 15% 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 30 th June 2015 against the agreed 2015/16 Audit Plan.
Annex 4	EKAP Balanced Scorecard of Performance Indicators to 30 th June 2015.
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.
<i>None to be reported this quarter</i>		

SERVICES GIVEN LIMITED / NO ASSURANCE LEVELS STILL TO BE REVIEWED				
Service	Reported to Committee	Level of Assurance	Management Action	Follow-up Action Due
Absence Management	June 2013	Limited	On-going management action in progress to remedy the weaknesses identified.	Work-in-progress as part of a planned audit
Employee Benefits-in-Kind	September 2014	Limited	On-going management action in progress to remedy the weaknesses identified.	Work-in-progress
Safeguarding Children and Vulnerable Groups	September 2014	Limited	On-going management action in progress to remedy the weaknesses identified.	Work-in-progress
East Kent Housing – Tenant Health and Safety	September 2014	Split Assurance	On-going management action in progress to remedy the weaknesses identified.	Work-in-progress
East Kent Housing – Leasehold Services	March 2015	Limited	On-going management action in progress to remedy the weaknesses identified.	Work-in-progress

PROGRESS AGAINST THE AGREED 2015-16 AUDIT PLAN.

DOVER DISTRICT COUNCIL:

Review	Original Planned Days	Revised Planned Days	Actual days to 30-06-2015	Status and Assurance Level
FINANCIAL SYSTEMS:				
Capital	5	5	0	Quarter 3
Bank Reconciliation	5	5	0	Quarter3
VAT	10	10	0.17	Work-in-progress
RESIDUAL HOUSING SYSTEMS:				
Housing Allocations	10	10	0.17	Work-in-progress
GOVERNANCE RELATED:				
Partnerships and Shared Service Monitoring	10	10	0.24	Work-in-progress
Equality & Diversity	10	10	0	Quarter 3
Risk Management	10	10	0	Quarter 3
Corporate Advice/CMT	2	2	0.51	Work-in-Progress throughout 2015-16
s.151 Meetings and support	9	9	5.40	Work-in-Progress throughout 2015-16
Governance Committee Meetings and Reports	12	12	5.84	Work-in-Progress throughout 2015-16
2016-17 Audit Plan Preparation and Meetings	9	9	0	Quarter 4
CONTRACT RELATED:				
Procurement	10	10	0	Quarter 4
SERVICE LEVEL:				
Community Safety	10	10	1.67	Work-in-progress
Dog Warden and Street Scene Enforcement	10	10	0	Quarter 3
Electoral Registration and Election Management	10	10	0	Quarter 4
Environmental Protection Service Requests	8	8	0	Work-in-progress
Public Health Burials	6	6	0.17	Work-in-progress
Port Health	10	10	0	Quarter 3
Health & Safety at Work	10	10	0	Quarter 4

Review	Original Planned Days	Revised Planned Days	Actual days to 30-06-2015	Status and Assurance Level
Licensing	10	10	0	Work-in-progress
Printing & Post	7	7	0	Quarter 4
Grounds Maintenance	10	10	0.3	Work-in-progress
Dover Museum and VIC	10	10	4.20	Finalised - Substantial
Commercial Properties and Concessions	10	10	0	Quarter 4
Building Control	10	10	0	Quarter 3
Your Leisure	10	10	8.19	Finalised - Reasonable
OTHER				
Liaison with External Auditors	2	2	0	Work-in-Progress throughout 2015-16
Follow-up Work	15	15	2.5	Work-in-Progress throughout 2015-16
FINALISATION OF 2014-15- AUDITS				
Absence Management	5		2.66	Work-in-Progress
Car Parking and PCNs			0.39	Finalised - Reasonable
Creditors and CIS			4.11	Finalised – Substantial
Income			0.20	Finalised - Reasonable
Days under delivered in 2014-15	0	1.32	0	Completed
EK HUMAN RESOURCES				
Recruitment	5	5	0	Quarter 3
Payroll	5	5	0.27	Work-in-Progress
Employee Health & Safety	5	5	3.49	Work-in-Progress
TOTAL	270	271.32	40.48	15% as at 30th June 2015

EAST KENT HOUSING LIMITED:

Review	Original Planned Days	Revised Planned Days	Actual days to 30-06-2015	Status and Assurance Level
Planned Work:				
Audit Ctte/EA Liaison/Follow-up	6	6	5.18	Work-in-Progress throughout 2015-16
Sheltered Housing & Supporting People	34	34	32.47	Work-in-Progress
Housing Repairs, Maintenance and Void Management	40	40	4.51	Work-in-Progress
Finalisation of 2015-16 Audits:				
Days over delivered in 2015-16	0	-0.34	0	Completed
Unplanned – CSO Compliance	0	0	5.53	Finalised - Reasonable
Total	80	79.66	47.69	60% at 30-06-2015

EK SERVICES:

Review	Original Planned Days	Revised Planned Days	Actual days to 30-06-2015	Status and Assurance Level
Planned Work:				
Housing Benefit Appeals	15	5	4.8	Finalised – Substantial
Housing Benefit Discretionary Housing Payments	15	8	7.9	Finalised – Substantial
Business Rate Reliefs	15	15	0.21	Quarter 4
Business Rate Credits	15	15	0.23	Quarter 4
Debtors	15	15	0	Quarter 3
ICT – PCI DSS	12	14	0.87	Quarter 3
ICT – Management & Finance	12	13	0	Quarter 3
ICT – Disaster Recovery	12	13	0	Quarter 4
Corporate / Committee /follow up	9	12.04	2.76	Work in progress throughout 2015-16
DDC / TDC Quarterly Housing Benefit Testing	40	40	12.35	Work in progress throughout 2015-16
Days over delivered in 2014-15	-9.79	0	1.48	Allocated
Total	150.21	150.21	30.60	20% at 30-06-2015

BALANCED SCORECARD – QUARTER 1

<u>INTERNAL PROCESSES PERSPECTIVE:</u>	<u>2015-16 Actual</u>	<u>Target</u>	<u>FINANCIAL PERSPECTIVE:</u>	<u>2015-16 Actual</u>	<u>Target</u>
	Quarter 1		Reported Annually		
Chargeable as % of available days	89%	80%	<ul style="list-style-type: none"> • Cost per Audit Day 	£	£321.33
Chargeable days as % of planned days			<ul style="list-style-type: none"> • Direct Costs (Under EKAP management) 	£	£412,450
CCC	38%	25%	<ul style="list-style-type: none"> • Indirect Costs (Recharges from Host) 	£	£11,700
DDC	15%	25%	<ul style="list-style-type: none"> • ‘Unplanned Income’ 	£	Zero
SDC	25%	25%	<ul style="list-style-type: none"> • Total EKAP cost 	£	£424,150
TDC	33%	25%			
EKS	20%	25%			
EKH	60%	25%			
Overall	28%	25%			
Follow up/ Progress Reviews;					
<ul style="list-style-type: none"> • Issued 	14	-			
<ul style="list-style-type: none"> • Not yet due 	30	-			
<ul style="list-style-type: none"> • Now due for Follow Up 	31	-			
Compliance with the Public Sector Internal Audit Standards (PSIAS)	Partial	Full			

BALANCED SCORECARD – QUARTER 1

<u>CUSTOMER PERSPECTIVE:</u>	<u>2015-16 Actual</u>	<u>Target</u>	<u>INNOVATION & LEARNING PERSPECTIVE:</u>	<u>2015-16 Actual</u>	<u>Target</u>
	Quarter 1			Quarter 1	
Number of Satisfaction Questionnaires Issued;	23		Percentage of staff qualified to relevant technician level	88%	75%
Number of completed questionnaires received back;	4 = 17%		Percentage of staff holding a relevant higher level qualification	43%	32%
Percentage of Customers who felt that;			Percentage of staff studying for a relevant professional qualification	25%	13%
<ul style="list-style-type: none"> • Interviews were conducted in a professional manner • The audit report was 'Good' or better • That the audit was worthwhile. 	100%	100%	Number of days technical training per FTE	0.89	3.5
	100%	100%	Percentage of staff meeting formal CPD requirements	43%	32%



ANNEX 5

AUDIT ASSURANCE

Definition of Audit 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.

The Audit Findings Report for Dover District Council

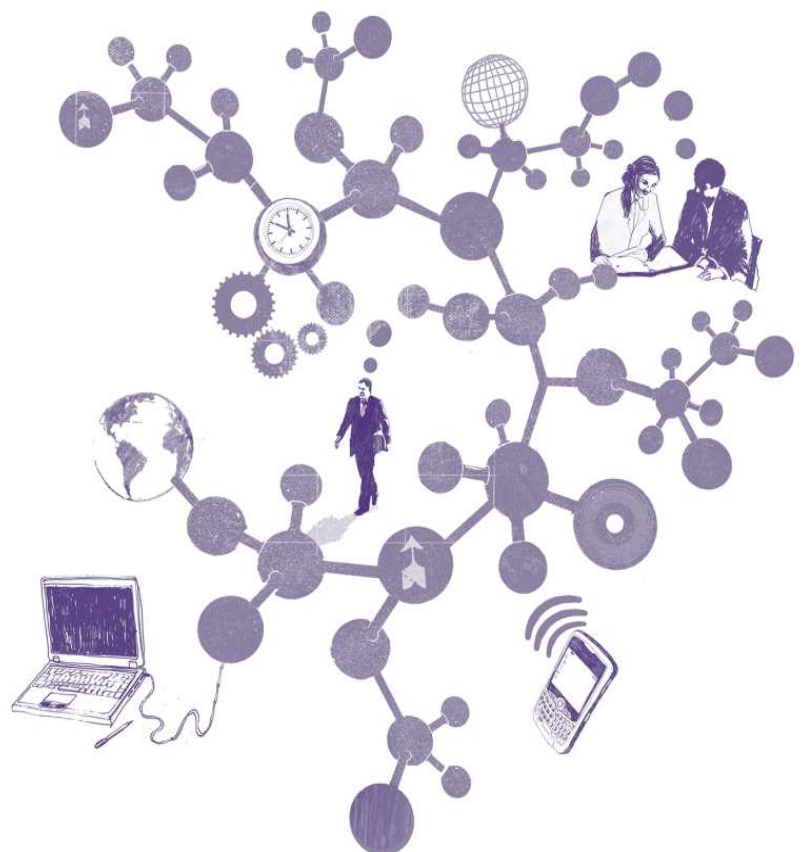
Year ended 31 March 2015

September 2015

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22nd September 2015

Dear Councillor Heath

Audit Findings for Dover District Council for the year ending 31 March 2015

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of Dover District Council, the Governance Committee), as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with the Director of Finance, Housing and Community.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Emily Hill, Engagement Lead

Chartered Accountants

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Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Dover District Council's (the Council) financial statements for the year ended 31 March 2015. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA UK&I).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position and expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money (VfM) conclusion).

Introduction

In the conduct of our audit we have made one change to our planned audit approach, which we communicated to you in our Audit Plan dated June 2015. In our Audit Plan, we assessed HRA revenue rental as having a reasonably possible risk of misstatement. On completion of our risk assessment work, we have reassessed this as set out on page 11.

Our audit is substantially complete although we are finalising our work in the following areas:

- obtaining and reviewing one outstanding investment confirmation
- completion of our review of work of experts and valuation movements
- completion of our testing of journals
- completion of our testing of loans and mortgages
- completion of our review of financial instruments
- finalising our sample testing of housing benefit expenditure
- final review of equity movements
- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation

- review of final version of the Annual Governance Statement
- updating our post balance sheet events review, to the date of signing the opinion; and
- Whole of Government Accounts

We will update members on any issues arising on completion of this work verbally at the meeting.

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

The Council produced a good set of accounts supported by working papers. Staff responded quickly and helpfully to queries. We anticipate providing an unqualified opinion in respect of the financial statements (see Appendix B).

The key issues arising from our audit of the Council's financial statements are:

- an adjusting post balance sheet event resulting in an increase of £1.3m to provisions, and corresponding adjustments across the financial statements, in relation to a recent court case that has set a precedent for a reduction in the rateable value of large purpose built GP surgeries/health centres back to 2005
- a number of adjustments to improve the presentation and disclosures of the financial statements.

Looking ahead, the statutory deadline for sign off audit opinions moves forward to 31 July in 2017/18. The Council will need to produce draft statements by 31 May. We recommend that the Council starts to bring forward its timetable so that it is able to meet the new requirements in advance of the formal change. We will work with the Council to support this, including helping to identify opportunities to de-clutter the financial statements and streamline the working paper preparation process.

Further details are set out in section two of this report.

Value for Money conclusion

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion.

Further detail of our work on Value for Money is set out in section three of this report.

Whole of Government Accounts (WGA)

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Findings

Our work has identified one control weakness in relation to the underlying information maintained for home improvement loans which we wish to highlight for your attention.

Further details are provided within section two of this report.

The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Finance, Housing and Community.

We have made a one recommendation, which is set out in the action plan in Appendix A. This has been discussed and agreed with the Director of Finance, Housing and Community and the finance team.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2015

Section 2: *Audit findings*

01. Executive summary

02. **Audit findings**

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Governance Committee in June 2015. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Change to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you in June 2015 except for the updated assessment of risk relating to Housing Revenue Account Rentals, set out on page 11 below.

Audit opinion

Our proposed audit opinion is set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1	<p>Improper revenue recognition</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to improper recognition</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Although we have rebutted the significant risk presumption we are still required to perform testing to address the inherent risk of improper revenue recognition.</p>	<ul style="list-style-type: none"> • review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions 	<p>We have determined that the risk of fraud arising from revenue recognition could be rebutted.</p> <p>Our audit work and testing of material revenue streams has not identified any issues in respect of revenue recognition.</p>
2	<p>Management override of controls</p> <p>Under ISA (UK&I) 240 there is a presumed risk of management override of controls</p>	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journal entries • review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls. In particular, our review of journal controls and entries to date has not identified any significant issues. We will update the Committee with any findings on completion of our work.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Operating expenses</p>	<p>Creditors understated or not recorded in the correct period (Operating expenses understated)</p>	<ul style="list-style-type: none"> • Documented our understanding of processes and key controls over the transaction cycle and undertaken walkthrough of the key controls • Substantive testing of operating expenditure payments for the year and year end payable balances • Testing of the reconciliation of operating expenditure recorded in the general ledger to subsidiary systems and interfaces • Cut off testing to assess whether transactions are recorded in the correct period and procedures to gain assurance that material goods and services received prior to the year end are correctly accrued for 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p>Employee remuneration</p>	<p>Employee remuneration and benefit obligations and expenses understated (Remuneration expenses not correct)</p>	<ul style="list-style-type: none"> • Documented our understanding of processes and key controls over the transaction cycle and undertaken walkthrough of the key controls • Substantive testing of employee remuneration expenditure payments for the year • Testing of the reconciliation of payroll expenditure recorded in the general ledger to subsidiary systems and interfaces • Trend analysis and risk identification for monthly payroll costs • Testing to confirm the completeness of payroll transactions and appropriate cut-off 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Audit findings against other risks cont.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Welfare expenditure</p>	<p>Welfare benefit expenditure improperly computed (Welfare expenditure understated)</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Documented our understanding of processes and key controls over the transaction cycle and undertaken walkthrough of the key controls • Testing of welfare expenditure in accordance with DWP requirements, including the performance of an analytical review and testing a sample of welfare benefit expenses from across the year • Testing of the reconciliation of the housing benefit system to the general ledger 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>We will update the Committee with any findings on completion of our sample testing.</p>
<p>Housing Rent Revenue Account</p>	<p>Revenue transactions not recorded.</p>	<p>As set out in the audit plan, we initially assessed this area in other risks of material misstatement. We completed our review of system controls and walked through the housing rents system.</p> <p>We have reassessed the level of risk for this area and removed it from our consideration as other risk of material misstatement based on there being lots of small transactions with rent debit set at the beginning of the year, recurring regular rental transactions and good sources of assurance.</p> <p>This remains a material balance and we have completed the following testing:</p> <ul style="list-style-type: none"> • agreement of housing rents system to general ledger • agreement of general ledger to subsidiary records • analytical review and proof in total 	<p>We have reduced our assessment of the level of risk of material misstatement in this area.</p> <p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Significant matters discussed with management

	Significant matter	Commentary
1	East Kent Housing	<p>The Council is a joint owner of East Kent Housing Ltd, an arms-length management organisation (ALMO), whose principal activity is to manage each of the four partner authorities' council housing stock.</p> <p>Note 42 of the draft financial statements described this as being a joint venture under joint control.</p> <p>With the adoption of the new group accounts standards in 2014/15 (IFRS 10,11 and 12) we discussed with the Council their assessment of East Kent Housing. Based on the voting arrangements and owners agreement, the Council concluded there is no joint control. Based on there being no investment involved, the Council concluded there the company is not an associate. The company has now therefore be treated as a related party and transactions of the ALMO recorded as a service provider.</p> <p>We are satisfied with the updated consideration, as reflected in the updated financial statements and that the judgements made by the Council in this assessment are reasonable.</p>
2	Valuations	<p>The statement of accounts show a significant increase in the valuation of Council Dwellings and Land and Buildings of £6.6m and £11.5m respectively.</p> <p>The main areas of significant increase are Deal Pier, Deal Leisure Pool, Dover Town Hall, Dover Leisure Centre and Council dwellings reflecting completion of the pier, separation of pool and leisure centre and upturn in market conditions.</p> <p>We are currently completing our review of the valuations and will update the Committee with our findings.</p>

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Asses sment
Revenue recognition	<p>The Council has three principal revenue streams</p> <ul style="list-style-type: none"> • taxation income relating to council tax and business rates, which is recognised in the year that the tax was levied • grant income, which is recognised in accordance with the terms of the grant, whether specific or non-specific • income from fees and charges in the provision of services, which is recognised when the service has been provided or when title to goods has passed. An exception is car park penalty notices accounted for on receipt. 	<p>The revenue recognition policies are appropriate and in accordance with the CIPFA Code and International Financial Reporting Standards (IFRS)</p>	<p>●</p> <p>Green</p>
Estimates and judgements	<p>Significant estimates and judgements include:</p> <ul style="list-style-type: none"> • useful life of capital equipment • land and building revaluations • expenditure accruals • allowance for doubtful debt • assessment that the waste collection and recycling contract does not contain an embedded lease • assessment that group accounts are not required for East Kent Housing. 	<p>Our review of key judgements and estimates has not highlighted any issues which we wish to bring to your attention.</p> <p>Our consideration of valuations and East Kent Housing are detailed on page 12 above. We will update the Committee on the completion of our review of valuations.</p>	<p>●</p> <p>Green</p>
Estimates and judgement – pension fund valuations	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements. Actuaries are engaged to provide the Council with expert advice about the assumptions to be applied. The effects on the net pension's liability of changes in individual assumptions can be measured and are disclosed in the accounts.</p>	<p>The policy adopted for the pension fund liability is appropriate under the Code.</p> <p>We have reviewed the work of the actuary as an expert and considered whether key assumptions (eg. discount rates, life expectancy, increases in salary) are reasonable.</p> <p>We have received assurances from the auditor of Kent County Council regarding the operation of controls in the pension schemes it administers on behalf of the Council.</p>	<p>●</p> <p>Green</p>

Assessment

● Marginal accounting policy which could potentially attract attention from regulators
 ● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates & judgements continued

Accounting area	Summary of policy	Comments	Assesment
Going concern	Management have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	<ul style="list-style-type: none"> We have reviewed management's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2014/15 financial statements. 	<p style="text-align: center;">● Green</p>
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	<ul style="list-style-type: none"> Our review of accounting policies has not highlighted any issues which we wish to bring to your attention 	<p style="text-align: center;">● Green</p>

Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate and disclosures sufficient

- Accounting policy appropriate but scope for improved disclosure

Accounting policies, Estimates & Judgements– review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	X	<p>Estimates and judgements - Property, Plant & Equipment</p> <p>In previous years the Council carried out a rolling programme of revaluations, within a 5 year programme. This approach was similar to many other authorities and we were satisfied that you had satisfied yourselves that the carrying amount of Property, Plant and Equipment (based on these valuations) did not differ materially from the fair value at 31 March 2014.</p> <p>However, in our view this rolling programme did not meet the Code's requirement to value items within a class of property , plant and equipment simultaneously, as this Code requirement, which is based on IAS 16 Property, Plant and Equipment, only permits a class of assets to be revalued on a rolling basis provided that:</p> <ul style="list-style-type: none"> • the revaluation of the class of assets is completed within a 'short period' • the revaluations are kept up to date. <p>In our view, we would normally expect this 'short period' to be within a single financial year. This is because the purpose of simultaneous valuations is to 'avoid reporting a mixture of costs and values as at different dates'. This purpose is not met where a revaluation programme for a class of assets straddles more than one financial year.</p>	<p>Page 28 of the accounts sets out the authority's rolling programme of revaluations. This shows that the Council has continued its policy of revaluing assets on a rolling programme.</p> <p>We noted the Council has made changes to its valuation programme to provide more robust evidence to satisfy itself that the carrying amount of Property, Plant and Equipment (based on these valuations) does not differ materially from the fair value at 31 March 2015.</p> <p>We are currently completing our work on valuations and will update the Committee verbally on our findings.</p> <p>In addition, we note that the CIPFA Code has been updated for 2015/16 to provide a formal interpretation of a short period for valuation of classes of local authority assets to a period of five years, therefore we will not expect to report this issue in future years.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1	Matters in relation to fraud	<ul style="list-style-type: none"> The Governance Committee considers risk of fraud. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit.
2	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidents of non-compliance with relevant laws and regulations.
3	Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Council.
4	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements. Our review identified a number of disclosure and presentation adjustments. All items have agreed to be adjusted for and we are therefore satisfied that disclosure set out in the final version of the accounts will be appropriate.
5	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed.
6	Confirmation requests from third parties	<ul style="list-style-type: none"> We obtained direct confirmations from the Public Works Loans Board for loans and requested from management permission to send confirmation requests to counterparties for bank and investment balances. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation, subject to the receipt of one confirmation which we are expecting to receive shortly.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration, Operating Expenses, Welfare Benefit Expenditure and Housing Rents as set out on page 10 -11 above.

The matters that we identified during the course of our audit are set out in the table below. This recommendation is included in the action plan attached at Appendix A.

	Issue and risk	Recommendations
1	<ul style="list-style-type: none"> The Council hold data in relation to home improvement loans which is provided to Capita to support their valuation assessment. Our audit review identified a need to review the underlying information to ensure that records are fully up to date such as timing of grants and loans. 	<ul style="list-style-type: none"> The Council should undertake a review of the underlying loan records to ensure they provide comprehensive supporting information.

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	<ul style="list-style-type: none"> The implementation of the e-financial upgrade has delayed progress to bring the bank reconciliation up to date. 	<ul style="list-style-type: none"> The finance team have made significant efforts to bring the bank reconciliation up to date during the financial year, resulting in an up to date reconciliation at the time of audit.
2	✓	<ul style="list-style-type: none"> In accordance with the Code, the Council needs to satisfy itself that the value of assets in its balance sheet is not materially different from the amount that would be given by a full valuation carried out on 31 March 2015. For 2013/14, this review was not complete at the start of our audit of accounts. 	<ul style="list-style-type: none"> The Council's review of assets was provided in a timely manner for audit. The Council has reviewed its valuation programme in the year to ensure that significant items are covered by the annual revaluation. We are currently completing our review of the valuations and will update the Committee verbally with any findings.
3	✓	<ul style="list-style-type: none"> There is currently a difference of £101,000 on the reconciliation of the LOBO borrowing which dates back a number of years. 	<ul style="list-style-type: none"> The difference has been reviewed and resolved. We are satisfied that there is no remaining difference in this area.

Assessment

- ✓ Action completed
- X Not yet addressed

Adjusted misstatements, misclassifications and disclosure changes

The table below provides details of changes identified during the audit which have been made in the final set of financial statements. We are required to report all non trivial misstatements (i.e. items greater than £84k) to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management. There are no adjustments identified during the audit which management has decided not to process in the final set of financial statements.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Misstatement	£1,264	Provisions	A recent court case set a precedent for a reduction in the rateable value of large purpose built GP surgeries/health centres back to 2005. The Council has therefore considered the impact of this in calculating its business rate appeals provisions. This adjusting post balance sheet event (note 41) is reflected across the financial statements, particularly resulting in an increase of the Council's share of provision of £1,263,600 and increase to safety net due from the government of £1,242,964. The overall impact is a reduction in net assets of £30,636.
2	Disclosure	-	Note 42	As detailed on page 12 above, the Council have updated its assessment of arrangements with East Kent Housing. These are not considered a joint venture but a related party with a service provider. The Council have agreed to amend note 42, and other references such as note 1 and 37, accordingly.
3	Disclosure	-	General disclosures	A number of other minor disclosure errors were identified and have been amended, such as: <ul style="list-style-type: none"> • updated references to change in NDR system to clarify changes occurred in 2013/14 • cross references from primary statements updated • updated terminology on IAS19 (Pension costs) • inclusion of balance sheet certification statement required by the Code • updates to accounting policy disclosures.

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Value for Money

Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VfM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

These criteria are:

The Council has proper arrangements in place for securing financial resilience - the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control.

Our work has highlighted that the Council continues to have appropriate arrangements in place to ensure value for money. Looking ahead, the external financial climate remains difficult with the Council facing a budget gap of £320k increasing to £728k in 2017/18.

The Council also recognise the volatile and uncertain environment they are working within, particularly reflecting on the impact of reductions in government grant and the implementation of budget announcements such as the HRA rent cap, right to buy and welfare reform.

It is vital that the Council continues its work to model its financial position and address budget gaps.

Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

Overall our work highlighted that the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and we have found it in this regard to be satisfactory.

Overall VfM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

The table below summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating
Key indicators of performance	The Council's key financial indicators demonstrate a track record of strong performance and a stable financial position. Budgetary control is good, usable reserves levels are adequate and the Council has appropriate levels of short term cash and cash equivalents.	Green
Strategic financial planning	The Council has in place a 3 year Medium Term Financial Strategy (MTFS) which clearly sets out savings plans and risks for the coming years. The Council has produced a balanced budget for 2015/16. Latest projections indicate a budget gap of £360k in 2016/17 and £728k in 2017/18 which the Council could utilise sufficient reserves to cover.	Green
Financial governance	The Council has sound arrangements in place in respect of financial governance. There is an appropriate level of senior management and member level engagement in the financial management process. Cabinet is regularly briefed with comprehensive and timely papers on the financial challenges facing the Council and how they are being managed.	Green
Financial control	The Council has a strong recent track record on delivering budgets and savings plans. Internal audit have given a positive opinion on controls and this has been reflected in the positive results of the external audit of accounts.	Green
Prioritising resources	The MTFS is based upon reasonable assumptions regarding future income and expenditure levels driven by the Council's statutory responsibilities and the Council's objectives.	Green
Improving efficiency & productivity	The Council continues to use alternative delivery methods, such as revenues and benefits partnership, joint internal audit, housing ALMO and joint procurement for waste collection to provide an efficient productive service with no substantial impact on service provision.	Green

Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Fees, non-audit services and independence

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

Fees

	Per Audit plan £	Actual fees £
Council audit	71,580	71,580
Grant certification	22,040	tbc*
Total audit fees	93,620	tbc*

* Additional fees are expected to be charged in respect of additional testing performed in relation to the BEN01 housing benefit grant claim for 40+ testing required to be completed by audit, rather than the authority. This work is on-going subject to agreement of the fee increase with Public Sector Audit Appointments Ltd.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Fees for other services

Service	Fees £
Audit related services	
Certification of pooling of housing capital receipts return	tbc **

** We are expecting the DCLG will require assurance or procedures on all CFB06 returns over £125,000 in 2014/15, but the exact nature of this is still to be confirmed. We are working with the department to help them finalise these instructions, for audit by 30 Nov 2015, and will update our scope and fee once these have been issued.

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Communication of audit matters to those charged with governance

International Standard on Auditing ISA (UK&) 260, as well as other (UK&I) ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code of Audit Practice.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Council should consider arrangements required to bring forward the timescale for closure of the financial statements, in readiness for statutory early closure in 2017/18.	High	The Council will look at the feasibility of setting earlier closure dates for 2015/16 as a trial.	Autumn 2015 Director of Finance, Housing and Community
2	The Council should undertake a review of the underlying home improvement loan records to ensure they provide comprehensive supporting information.	Medium	Initial work has been undertaken on the home improvements loan records reconciliation. This indicates that the data in the accounts is correct and supported, but the exercise needs to be completed before the position can be confirmed.	Autumn 2015 Director of Finance, Housing and Community

Priority

High, Medium or Low

Appendix B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF Dover District COUNCIL

We have audited the financial statements of Dover District Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of Dover District Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Finance, Housing and Community and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Director of Finance, Housing and Community is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the s.151 officer and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Dover District Council as at 31 March 2015 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We are required to report to you if:

- in our opinion the annual governance statement does not reflect compliance with ‘Delivering Good Governance in Local Government: a Framework’ published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or
- we designate under section 11 of the Audit Commission Act 1998 a recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority’s arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission in October 2014.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, we are satisfied that, in all significant respects, Dover District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

Certificate

We certify that we have completed the audit of the financial statements of Dover District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Emily Hill
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton House, Melton Street, Euston Square, London, NW1 2EP

xx September 2015



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Subject:	FINANCIAL OUTTURN 2014/15
Meeting and Date:	Governance – 22 September 2015
Report of:	Mike Davis, Director of Finance, Housing and Community
Portfolio Holder:	Councillor Mike Conolly, Portfolio Holder for Corporate Resources and Performance
Decision Type:	Non-Key
Classification:	Unrestricted

Purpose of the report:	To provide details of the financial outturn for 2014/15 following the audit of the Statement of Accounts
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Recommendation:	That Members receive and note the report.
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1. Summary

This report has been produced in order to provide Members with:

- An explanation of the outturn and the financial standing of the Council;
- Details of changes to the accounts; and
- A condensed version of the information included in the accounts.

The report should be considered in conjunction with both the Statement of Accounts and the Audit Findings Report (elsewhere on the Governance agenda).

The accounts are a long and complex document that Members may not find accessible. The key points in the financial outturn for the year are:

- The General Fund was £304k in surplus for the year and balances have been maintained at over £2.8m;
- No funds have been drawn down from the District Regeneration & Economic Development Reserve, which is the renamed “HRA Transfer Reserve”;
- HRA balances have been increased by over £2m (incl. earmarked);
- The capital and major revenues projects have stayed within budget, although resources for further projects remain limited;
- No new borrowing has been undertaken, the Council has complied with the Prudential Code and its own Treasury Management policies;
- When considering this report and the Statement of Accounts, Members are reminded that the final accounts, budget and Medium Term Financial Plan (MTFP) should not be considered in isolation. Together they form a continuous process of financial management, and so the outturn will feed into budget monitoring and the next MTFP.

2. Purpose of the Accounts

2.1 The accounts are a statutory requirement and have a role in providing information to stakeholders and interested parties on the stewardship and management of public monies.

2.2 However, the accounts are a long and complex document which may not be easily accessible to Members, the public and other stakeholders. Therefore, in order to further promote accountability, this outturn report is also produced.

3. General Fund Revenue Outturn

- 3.1 The starting point for considering the financial outturn is the 2014/15 Original budget which is shown, together with the 2014/15 Projected Outturn and the 2014/15 Outturn, at Appendix A.
- 3.2 The original budget for 2014/15 forecast a break-even position, i.e. £nil. The latest projection of the budget, following various changes in year, was a surplus of £203k. The outturn, after transfers to earmarked reserves, was a surplus of £304k. This gives an underlying General Fund Balance of £2.889m
- 3.3 The main variances during the year are as follows:

	Variance £000	Budget £000
Original Budget Surplus		0
Enterprise Zone Relief for prior years under new funding arrangements	(460)	
Safety Net Payment Due partially offset by reduced S31 Grant	(116)	
Business Rates & Council Tax Reserve – top up not required in 2014/15	(256)	
Vacancy and Efficiency savings	(251)	
Council Tax Collection – increased recovery of court costs, etc.	(133)	
Transfer to reserves for one-off projects (£500k)/IT Equipment (£268k)	768	
Waste - reduced sales of bins and sacks and increased purchases of bins for new developments	89	
Reduced HRA recharges	75	
Homelessness – additional emergency accommodation & storage costs	61	
Miscellaneous other variances (net)	20	
Revised Budget Surplus		(203)
Council Tax Reduction Scheme – New Burdens Grant credited to service	(89)	
Miscellaneous other variances (net)	(12)	
Actual Budget Surplus		(304)

4. General Fund Reserves and Balances

- 4.1 General Fund reserves are “cash backed” reserves and are available for the Council to use. For management and planning purposes they are split into “General Balances” and “Earmarked General Reserves”.
- 4.2 General Balances are held at a prudent level in order that the Council can cope with unanticipated variations in spend. Earmarked General Reserves are funds set aside for planned purposes.
- 4.3 As reported above, the 2014/15 Outturn was a surplus of £304k. This was after transfers made to earmarked reserves, and use of those reserves for agreed purposes.

Movement in General Fund Balances	
	£000
Balance at start of the year	(2,585)
Surplus from 2014/15	(304)
Balance at the end of the year	(2,889)

- 4.4 The Opening Balance of £2,585k and the year-end balance of £2,889k can be found in Appendix A to this report and also within the Statement of Accounts in the “Movement in Reserves Statement”.
- 4.5 Note 26 to the Core Financial Statements in the draft Statement of Accounts provides a complete breakdown of the Earmarked Reserves, also shown at Appendix B to this report. Contributions to and from the Earmarked Reserves have been managed in

order to ensure there are sufficient reserves to meet anticipated commitments. The reserves held are:

- Special Projects & Events Reserve – This reserve is set aside to continue to fund one-off General Fund projects as they arise and to support major events in the district. It is used for both revenue and capital projects.
- Periodic Operations Reserve - This reserve is to cover costs of cyclical / periodic events such as elections, “carry forward requests” and to hold grants or other income streams for specific purposes, such as the Homelessness grant and On-Street parking surpluses.
- Urgent Works Reserve - This reserve is set aside to fund urgent works on corporate assets and for other urgent business requirements, for example for future restructures to meet likely on-going grant reductions. The need for this reserve is greater than ever due to the ageing nature of our assets and the reduced levels of investment in them as reflected in the reduced revenue budget.
- Dover Regeneration Reserve - In order to support the Local Development Framework process and associated regeneration projects a Dover Regeneration Reserve has been established.
- ICT Equipment & Servers Reserve – The current ICT Equipment & Servers reserve is held in order to support the requirements of the current and future ICT Strategies.
- Business Rates & Council Tax Benefits Reserve – This reserve was established to allow for the risk of unforeseen pressures from the Redistribution of Business Rates and the new Council Tax Support scheme and future changes for Universal Credit. As there are still many uncertainties around these areas, in particular future income collection rates, this reserve has been retained and will be reviewed on an annual basis.
- District Regeneration & Economic Development Reserve - This is the renamed “HRA Transfer Reserve”. No definitive plans have been made for the application of the funds in this reserve and any such plans will be reported. However, in broad terms, this reserve is intended to be applied to support the Council’s regeneration plans.

4.6 In considering the earmarked reserves and general balances Members are reminded that there is an “opportunity cost” of maintaining these reserves and balances when the resources could be applied to meet service or capital investment requirements. At the same time, maintaining cash backed reserves generates additional income from interest on cash balances, which is used as an additional income stream. However, the key judgement is to ensure that the reserves are set at levels that facilitate the prudent financial management of the authority, provide sufficient resources to meet anticipated future demands, and provide for a margin for unanticipated variation.

4.7 It is the view of the Director of Finance, Housing and Community (Section 151 officer) that the estimated General Fund balances and reserves are adequate for the Council's current spending plans. However, these are under regular review due to the ongoing changes to Local Government finance and the uncertain economic climate.

5. **Housing Revenue Account Outturn**

5.1 In 2014/15 the HRA outturn was a decrease in the HRA balance of £692k compared to the original budget forecast of an increase of (£385k) a variance of £1.1m. The main reasons for the variance are as follows:

- Transfer to Housing Initiatives Reserve - £2.8m
- Re-phased spend on the Capital Works Programme - (£886k).
- Additional dwelling rent income – (287k)
- Reduction in Rent, Rates Taxes & Other Charges of (£119k)

- Removal of Home Loss Payment (£100k) due to deferral of refurbishment of Norman Tailyour House to 2015/16
 - Reduction in the bad debt provision (£183k)
- 5.2 In 2014/15 £2.8m was transferred to the Housing Initiatives Reserve to provide investment for housing initiatives in the district whilst maintaining a working balance of circa £1m.
- 5.3 £1.5m was invested in new HRA housing projects including the provision of three new dwellings in Elvington & two new dwellings in Deal.
- 5.4 The overall HRA Balances (incl. Earmarked reserves) are £4.8m, which is an increase of £2.8m on the start of the year.

6. **Collection Fund Outturn**

- 6.1 This account reflects the statutory requirement for billing authorities to maintain a separate Collection Fund, which shows the transactions of the billing authority in relation to Non-Domestic Rates (NDR) and Council Tax, and illustrates the way in which these have been distributed to precepting authorities and the General Fund. These are explained in more detail in the Collection Fund section of the Statement of Accounts.
- 6.2 The Collection Fund shows a total deficit of £1.6m at 31 March 2015. This is split between Council Tax (a surplus of £1.9m) and NDR (a deficit of £3.5m). Any surplus balance on the fund is distributed to the precepting authorities (Dover District Council, Kent County Council, Kent and Medway Fire Authority and Kent Police Authority (Council Tax only)) in proportion to their respective precept amounts. However surpluses are on an accruals basis and are not fully cash backed and calculations for distribution of the surplus form part of the following year's budget process.
- 6.3 The NDR deficit has arisen mainly due to the need to increase the provision for appeals by £5.3m to £8.1m. This significant increase in appeals provision is partly due to a ratings tribunal decision to value purpose-built doctors' surgeries on a different basis than before (construction cost as opposed to rental value), which led to an average 66% reduction in rateable value and therefore income, backdated to 1st April 2010, for all surgeries falling within this class. The provision has also been increased for other appeals lodged before the year-end that have been resolved with a successful outcome (for the applicant) since 31st March 2015, along with an estimate for the significantly higher rateable value under appeal compared to the end of the previous year (which has approximately doubled from 2014 to 2015) due to Central Government's decision to only allow backdating of refunds for appeals for those appeals lodged by 31st March 2015. For any appeals made later than this date, refunds can only be backdated to 1st April 2015, although VOA has some discretion over backdating and may still backdate to earlier than 1st April 2015.
- 6.4 Dover's own accounts include only its share of the NDR appeals provision and NDR Collection Fund deficit.

7. **Capital Programme Outturn**

- 7.1 The Council invested £9.6m in major projects in 2014/15, the most significant of which were:
- £729k on works to progress the development of Dover Town Investment Zone and the surrounding area;
 - £118k on the construction of a new car park at Bench St;
 - £6.5m on Housing Revenue Account property projects including £1.6m on redevelopment of land, and purchase and refurbishment of affordable homes;
 - £120k on grants and loans for private sector housing;

- £731k on Disabled Facility Grants;
- £336k on the 'Up on the Downs' landscape projects;
- £1.4m for grant funding issued to the Discovery Park Enterprise Zone;
- The remainder has been spent on a number of smaller projects.

7.2 The main sources of capital financing applied in the year were:

- £3.1m in grants from external bodies including the Homes and Communities Agency, Department for Communities and Local Government, Department for Energy and Climate Change; Environment Agency, Heritage Lottery Fund, and Partnership Funding;
- £2.9m from the Major Repairs Reserve;
- £2.6m from the Housing Revenue Account (revenue financing);
- £466k from Excess Right to Buy Receipts;
- £212k from Section 106 funding;
- £277k from capital receipts.

7.3 Overall, the capital programme is within budget.

7.4 Right to Buy sales continue to increase due to Government initiatives to encourage sales; overall sales were higher in 2014/15 than in 2013/14.

8. **Special Projects Outturn**

8.1 The Special Projects reserve is mainly used to finance major one-off revenue projects, because, as revenue projects, they cannot be financed from the various capital financing sources listed in the section above. It is also used to provide a source of additional financing for a small number of capital projects.

8.2 The spend on Special Projects in the year was £434k. The Special Projects programme is dynamic. It is adjusted as new projects are approved, and these changes are reported to Members during the year. However, "in year" variations in spend against approved budget for individual projects are mainly due to timing changes. There are no material variations to individual project's total budget, and the whole programme is fully financed.

9. **Treasury Management**

9.1 The Council retains the services of Sector as Treasury Management advisers and they provide market intelligence, economic forecasts, fund managers performance, debt re-scheduling, opportunities for borrowing and ad-hoc enquiries.

9.2 At 31 March 2015 the Council had over £13m of investments managed by the Council's fund manager, Investec . In addition, investment balances and day-to-day cash balances managed in-house were approximately £32m as at 31 March 2015.

9.3 The Council's in-house investments outperformed their benchmark (LIBID) and achieved an average return of 0.52% for the year. The investments with the investment managers, Investec, also outperformed the benchmark and achieved an average of 0.59% for the year.

9.4 The total interest received for the year was approximately £276k. This was higher than the original budget of £264k, which was almost entirely due to better than expected returns from Investec.

9.5 More detailed reports on the latest position are included elsewhere on the agenda.

10. Assets and Liabilities

- 10.1 At the year end the balance sheet is drawn up. This shows the value of Dover District Council's land and buildings and assets and liabilities. The full balance sheet is provided in the Statement of Accounts together with comprehensive explanatory notes. A summary balance sheet has been produced (see below).

As at 31 March	2014 £000	2015 £000
Value of land, property and other assets	231,463	256,499
Investments held and cash at bank	34,520	44,983
Money owed to DDC for goods and services	6,976	9,876
Loans owed to DDC (short and long term)	2,850	2,817
Money owed by DDC for goods and services	(14,793)	(18,829)
Loans owed by DDC (short and long term)	(94,111)	(92,038)
Grants for assets received but not yet used	(768)	(1,513)
Share of pension scheme liabilities owed by DDC	(65,828)	(81,456)
Total Assets less Total Liabilities	100,309	120,339
Financed by:		
Usable reserves ¹	28,905	38,593
Unusable reserves ²	71,404	81,746
Net Worth of Council	100,309	120,339

¹ Usable reserves are made up of:

Capital receipts and grants	4,296	8,768
Revenue balances	4,371	3,983
Earmarked reserves	20,238	25,842
	28,905	38,593

² Unusable reserves mainly comprise revaluations of assets from their original purchase value and the Pensions Reserve.

- 10.2 The main points to note against the prior year comparative are:

- Value of land, property and other assets
The main changes in the values are due to:
 - Disposals – council house and other sales
 - Revaluations - council dwellings are revalued each year and other land and property are revalued on a five-year rolling programme, except that assets valued at £1m or more are now re-valued on an annual basis to ensure that assets are carried at fair value and that there are no material differences to the balance sheet.
 - Impairments – these are caused by either a general fall in property prices or specific revaluations due to clear consumption of economic benefits (e.g. through physical damage or deterioration). There were no significant impairments in the year.
- Money Owed to DDC for Goods and Services
 - The increase includes monies owed by Central Government for VAT and Safety Net for NDR entitlement, as well as increases in sums due from Shepway District Council for Waste contract, and funding from partners for both the White Cliffs Countryside Project and White Cliffs Landscape Partnership.

- Money owed by DDC for Goods and Services
 - The main increase relates to DDC's share of the NDR Appeals Provision (£2.1m increase approx.) and other Collection Fund creditors (£1.0m increase approx.).
 - See Notes 29 – 31 for an analysis of this total.

- Pension Scheme Liabilities
 - The Pension Scheme has been assessed by Barnett Waddingham, an independent firm of actuaries, on behalf of Kent County Council based upon the full valuation of the scheme as at 31 March 2015. The Council's annual contribution to the scheme is in line with the levels recommended by the actuaries.
 - The net liability at 31 March 2015 was £81.4m (£65.8m at 31 March 2014).
 - The liability is volatile and reflects the net effect of a range of factors, including valuation of the scheme's assets and yields on gilts as they occur on the day of valuation. An increase in interest rates will reduce the liability.
 - The scheme remains solvent and viable.

- Usable Reserves
 - The main reason for the increase in usable reserves in 2014/15 relates to the increase in HRA and General Fund Earmarked Reserves and an increase in 'Capital Grants Unapplied', i.e. grants received in-year that are allocated to fund future spend on projects.
 - In respect of General Fund Earmarked Reserves, the main increases are due to a net contribution to the Special Projects & Events Reserve, and the transfer of safety net monies due from Government for business rates to the 'Business Rates & Council Tax Support' reserve to cover the future recognition of the deficit on the NDR Collection Fund and other potential costs from localisation. See Appendix B for further details of General Fund Earmarked Reserves.
 - In respect of Capital Grants Unapplied, the main grant unapplied is the "Building Foundations for Growth" funding that is to be paid over to Discovery Park on submission of valid invoices for the refurbishment of some of the older buildings on the site.

11. Production of the Accounts

- 11.1 Governance Committee require assurance that the accounts are robust and that they can place reliance upon them. The accounts have been subject to audit by Grant Thornton and their findings are set out in the Audit Findings Report elsewhere on the Governance agenda. In addition, a summary of the controls operated by the Director of Finance, Housing and Community is provided at Appendix C.

12. The Future

- 12.1 The Council, in common with others, will need to continue to make progress on, or give consideration to, the on-going impacts of :
- development and regeneration of the local economy;
 - the implementation of localisation of Council Tax support;
 - the Business Rates Retention Scheme;
 - Welfare Reform and cessation of the administration of housing benefits over a transitional period;
 - reviews of local government financing and expected further cuts in government funding;
 - the wider economic climate;
 - the reduction by central government, of council house rents and housing association rents;

- the extension of right-to-buy to Housing Associations and the required additional sale of Council houses to provide the funds to compensate housing associations;
- the possible capping, by central government, of council reserves.

13. **Appendices**

Appendix A – General Fund Budget Summary

Appendix B – General Fund – Earmarked Reserves Summary

Appendix C - Summary of the Main Controls Applied in Production of the Accounts

14. **Background Papers**

Statement of Accounts 2014/15

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APPENDIX A

<u>2013/14 Actual</u>	General Fund Budget Summary	<u>2014/15 Original Budget</u>	<u>2014/15 Revised Budget</u>	<u>2014/15 Actual</u>
£000		£000	£000	£000
	<u>Directorate</u>			
1,633	Chief Executive	2,178	2,358	3,763
2,168	Governance	2,434	2,387	2,043
2,513	Finance, Housing & Community	2,437	1,614	2,996
7,295	Environment & Corporate Assets	7,510	7,451	6,607
464	Special Revenue Projects	198	602	434
0	Vacancy Allowance	(100)	0	0
0	Delivering Effective Services/EKS Target	(95)	0	0
(113)	Council Tax Second Homes Income	(113)	(113)	(113)
0	Contingency	97	8	0
13,960	Directorate Service Costs	14,546	14,307	15,730
(1,636)	Depreciation & Revaluations	(1,675)	(1,675)	(1,205)
830	IAS 19 Pension Adjustments	828	1,167	907
4	Accrued Annual Leave Adjustment	0	0	(6)
64	River Stour Drainage Board	66	66	66
284	Council Tax Support to Towns & Parishes	142	142	142
	<u>Contribution to/(from) Reserves:</u>			
(56)	- Special Projects & Events Reserve	306	733	798
(66)	- Periodic Operations Reserve	5	159	457
363	- Urgent Works Reserve	0	299	299
539	- Regeneration Reserve	209	(7)	63
(90)	- IT Equipment Reserve	58	19	98
210	- Revenue Grants in Advance Reserve	0	(1)	(123)
(32)	- Business Rates & Council Tax Reserve	256	0	1,233
14,374	Net Service Expenditure	14,741	15,209	18,459
	<u>Financing Adjustments</u>			
(182)	Interest & Investment Income	(185)	(201)	(206)
251	Interest Payable & Loan Repayments	237	237	249
(329)	Revenue Expenditure Funded by Capital Under Statute & Capital Grants Unapplied	0	0	(2,470)
0	Direct Revenue Financing of Capital	0	0	373
(71)	Soft Loan Adjustments	0	0	(62)
867	NDR Collection Fund Adjustment	0	0	0
14,910	Total Budget Requirement	14,793	15,245	16,343
	Financed by:			
2,994	Non-Domestic Rates	3,332	3,448	4,682
697	Enterprise Zone Relief Retained	515	975	975
4,699	Revenue Support Grant	3,698	3,698	3,698
5,822	Council Tax	5,874	5,874	5,874
37	Collection Fund Surplus	20	20	20
927	New Homes Bonus	1,296	1,307	1,307
59	New Burdens, CT freeze & Other Grants	58	126	91
15,235	Total Financing	14,793	15,448	16,647
(325)	General Fund Surplus for the Year	0	(203)	(304)
(14,760)	General Fund Balance at Start of Year	(2,531)	(2,585)	(2,585)
12,500	HRA Transfer to Earmarked Reserves	0	0	0
(2,585)	Leaving Year End Balances of	(2,531)	(2,788)	(2,889)

APPENDIX B

Earmarked General Reserves (2014/15 Year End Position)										
	Balance	Contrib- ution	Application	Balance	Contrib- ution	Application	Balance	Contrib- ution	Application	Balance
	2013/14 £000	2014/15 £000	2014/15 £000	2014/15 £000	2015/16 £000	2015/16 £000	2015/16 £000	2016/17 £000	2016/17 £000	2016/17 £000
General Fund Balance	-2,585	-304	0	-2,889	-92	0	-2,981	0	360	-2,621
Special Projects & Events Reserve	-949	-1,018	220	-1,746	-727	576	-1,897	-20	80	-1,837
Periodic Operations Reserve	-1,357	-647	312	-1,692	-77	456	-1,313	-47	254	-1,106
Urgent Works Reserve	-1,467	-299	0	-1,766	0	200	-1,566	0	200	-1,366
Dover Regeneration Reserve	-1,017	-379	315	-1,080	-294	28	-1,346	-294	388	-1,251
ICT Equipment & Servers	-357	-347	249	-455	-182	226	-411	-58	50	-419
Business Rates & Council Tax Support	-579	-1,233	0	-1,812	0	0	-1,812	0	0	-1,812
District Regen & Economic Dev Reserve	-12,500	0	0	-12,500	0	0	-12,500	0	0	-12,500
Earmarked Reserves Total	-18,226	-3,923	1,096	-21,052	-1,279	1,486	-20,846	-418	972	-20,292
Total Revenue Reserves	-20,811	-4,226	1,096	-23,941	-1,371	1,486	-23,827	-418	1,332	-22,913

Summary of the Main Controls Applied in Production of the Accounts

Production of the accounts in accordance with the Code of Practice on Local Authority Accounting requires a large number of tasks to be undertaken, and controls to be applied. These include:

- Preparation of a closedown plan, communication with budget managers as appropriate and monitoring progress.
- Staff preparing the accounts have attended seminars / briefings with CIPFA and with the auditors.
- Staff preparing the accounts have access to the Code Practitioners Guidance Notes.
- The Council's financial feeder systems have been reconciled to the General Ledger.
- The General Ledger has been balanced.
- The value of fixed assets in the accounts has been reconciled to the asset register.
- The cash balance in the General Ledger has been reconciled to the Council's bank accounts.
- All significant variances have been explained in the Outturn Report.
- Service expenditure in the Outturn report has been reconciled to the Income and Expenditure Account.
- The entries on the Collection Fund have been reconciled to the Council Tax set by the Council and the other precepting authorities.
- The cash movement on the balance sheet is reconciled.
- The balances on reserves reported in the Movement in Reserves Statement has been reconciled to the balance sheet.
- An analytical review has been undertaken and major variances have been explained.



Mike Davis
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