

Public Document Pack



Democratic Services
White Cliffs Business Park
Dover
Kent CT16 3PJ

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

19 September 2018

Dear Councillor

NOTICE IS HEREBY GIVEN THAT a meeting of the **GOVERNANCE COMMITTEE** will be held in the HMS Brave Room at these Offices on Thursday 27 September 2018 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 democraticservices@dover.gov.uk.

Yours sincerely

A handwritten signature in black ink, appearing to be "Nicky", written over a white background.

Chief Executive

Governance Committee Membership:

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

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 meetings of the Committee held on 28 June and 30 July 2018.

5 **REVIEW OF THE CONSTITUTION 2018 - COUNCIL QUESTIONS AND ANSWERS** (Pages 11 - 13)

To consider the attached report of the Director of Governance.

6 **QUARTERLY INTERNAL AUDIT UPDATE REPORT** (Pages 14 - 35)

To consider the attached report of the Head of Audit Partnership (East Kent Audit Partnership).

7 **GRANT THORNTON ANNUAL AUDIT LETTER 2017-18** (Pages 36 - 48)

To consider the report of Grant Thornton (External Auditors).

8 **TREASURY MANAGEMENT QUARTER ONE REPORT 2018/19** (Pages 49 - 64)

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

9 **PROPERTY INVESTMENT REPORT**

To consider the report of the Director of Finance, Housing and Community (to follow).

10 **EXCLUSION OF THE PRESS AND PUBLIC** (Page 65)

The recommendation is attached.

MATTERS WHICH THE MANAGEMENT TEAM SUGGESTS SHOULD BE CONSIDERED IN PRIVATE AS THE REPORT CONTAINS EXEMPT INFORMATION AS DEFINED WITHIN PART 1 OF SCHEDULE 12A OF THE LOCAL GOVERNMENT ACT 1972 AS INDICATED AND IN RESPECT OF WHICH THE PROPER OFFICER CONSIDERS THAT THE PUBLIC INTEREST IN MAINTAINING THE EXEMPTION OUTWEIGHS THE PUBLIC INTEREST IN DISCLOSING THE INFORMATION

11 **QUARTERLY INTERNAL AUDIT UPDATE REPORT** (Pages 66 - 68)

To consider the attached report of the Head of Audit Partnership (East Kent Audit Partnership).

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 are normally published within five working days of each meeting. All agenda papers and minutes are available for public inspection for a period of six years from the date of the meeting.
- If you require any further information about the contents of this agenda or your right to gain access to information held by the Council please contact Jemma Duffield, Democratic Services Officer, telephone: (01304) 872305 or email: democraticservices@dover.gov.uk for details.

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

Declarations of Interest

Disclosable Pecuniary Interest (DPI)

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

Other Significant Interest (OSI)

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

Voluntary Announcement of Other Interests (VAOI)

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

Note to the Code:

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

Minutes of the meeting of the **GOVERNANCE COMMITTEE** held at the Council Offices, Whitfield on Thursday, 28 June 2018 at 6.00 pm.

Present:

Chairman: Councillor P G Heath

Councillors: B W Butcher
P I Carter
M I Cosin
M R Eddy
D Hannent

Officers: Director of Governance
Head of Finance
Head of Audit Partnership (East Kent Audit Partnership)
Deputy Head of Audit Partnership (East Kent Audit Partnership)
Democratic Services Manager
Democratic Services Officer

1 APOLOGIES

An apology for absence was received from Councillor S F Bannister.

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 held on 8 March 2018 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 sixteen internal audits completed during the period, of which two concluded Substantial assurance, one Substantial/Reasonable assurance, ten concluded Reasonable assurance, and one concluded Reasonable/Limited assurance. There were a further two pieces of work completed (Housing Benefit Testing) for which an assurance level was not applicable.

There had been two follow up reviews completed during the period of which an original assurance level of Substantial/Reasonable was revised to Substantial/Limited for Planning Applications, income and s106 Agreements due to the data retention schedule having not yet been completed. The Director of Governance assured Members that management were working closely with the department to ensure this was completed as quickly as possible to ensure they were GDPR compliant.

The partially limited assurance for East Kent Housing (EKH) - Safeguarding Children and Vulnerable Groups was raised as a concern by Members. Members were provided with assurance from EKH that the failings were being addressed and confirmed that all of the items identified within the action plan had been actioned including: revised DBS processes following service restructure; provision of additional information on the website; and the adoption of a new safeguarding policy framework. Members asked that a follow-up review be completed as a matter of urgency.

RESOLVED: (a) That the report be noted.

(b) That a follow-up review of East Kent Housing – Safeguarding Children and Vulnerable Groups be completed and reported to the Governance Committee at its meeting in September 2018.

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 2018.

The agreed programme of audits had been completed for the year and of the twelve pieces of completed work 89% received a substantial or reasonable Assurance level with no major areas of concern that would give rise to a qualified opinion. As a result of follow up progress reviews undertaken, two pieces of work that received a Limited Assurance were revised to Reasonable and Reasonable/Limited assurance with no fundamental issues of note arising from the follow-ups. There had been a total of 92 recommendations made of which 68% were analysed as being High or Medium risk, although none that were so significant that they needed to be escalated.

With regard to Port Health and the Substantial assurance provided, Councillor M R Eddy, whilst aware that inspections were being carried out on the ferries between Dover and Calais, believed that there were significant issues concerning hygiene and safety which required further investigation. EKAP agreed to raise those concerns with Management of that area.

RESOLVED: That the report be noted.

7 2017/18 ANNUAL GOVERNANCE ASSURANCE STATEMENT

The Director of Governance presented the Annual Governance Assurance Statement to the Committee. This was an annual review of the effectiveness of the Council's system of internal control and to report the extent to which the Council comply with its own Local Code of Corporate Governance. The Statement was required to be considered alongside the 2017/18 Statement of Accounts.

Members were directed to the report and the significant governance issues and improvements during the year. It was reported that regular updates would be made to the State of the District report as new data was published and that members

would be informed in a timely manner of any significant changes. Members requested that this be communicated via the Members' Weekly News.

It was concluded that the report demonstrated what the Council did well and continued to deliver good governance.

RESOLVED: (a) That the Committee accept the Annual Governance Statement alongside the 2017/18 Statement of Accounts.

8 REVIEW OF THE CONSTITUTION 2018 - GENERAL AND ADMINISTRATIVE AMENDMENTS

The Director of Governance (Monitoring Officer) presented the report to the Committee. Article 15 of the Constitution required the Monitoring Officer to conduct regular reviews of the Constitution and this was the second report as part of the Review of the Constitution 2018 which covered more general and administrative amendments.

The Director of Governance took Members through the main amendments in the report which included: consequential changes; general amendments; amendments to the Scheme of Officer Delegations; and other changes, which sought for consideration to the provision of written answers to questions asked on notice at meetings of the full Council, as requested by Councillor M R Eddy.

RESOLVED: (a) That it be recommended to Council that the proposed changes in the Review of the Constitution 2018, specifically relating to Part 3, Responsibility for Functions, Section 1 (Responsibility for Local Choice Functions), Section 2 (Responsibility for Local Choice Functions) and Section 6, Sub Section C (Scheme of Officer Delegations) that relate to Council functions be approved and incorporated into the Council's Constitution, issue no. 21.

(b) That it be recommended to Council that the proposed changes in the Review of the Constitution 2018, specifically relating to Part 3, Section 6, Sub Section C (Scheme of Officer Delegations) that relate to executive functions be approved.

(Note: The Leader of the Council be asked separately to approve any changes relating to executive functions but the Council be asked to approve the Scheme of Officer Delegations in its totality in the event that there has been an erroneous misclassification of functions.)

(c) That it be recommended to Council that the additional changes set out in Appendix 1 of the report be approved and incorporated into the Council's Constitution, issue no.21.

9 REVIEW OF THE CONSTITUTION 2018 - FINANCIAL PROCEDURE RULES AND BUDGET AND POLICY FRAMEWORK PROCEDURE RULES

The Director of Governance (Monitoring Officer) presented the Review of the Constitution 2018 – Financial Procedure Rules and Budget and Policy Framework Procedure Rules report to the Committee.

Article 15 of the Council's Constitution made provision for the regular review of the Constitution by the Monitoring Officer on an annual and ad-hoc basis. As part of the 2018/19 review, changes were proposed to the Financial Procedure Rules and Budget and Policy Framework Procedure Rules.

Members thanked officers for their hard work in producing the new procedure rules.

RESOLVED: (a) That it be recommended to Council that the proposed changes as part of the 2018/2019 Review of the Constitution relating to Part 4 – Financial Procedure Rules and Budget and Policy Framework Procedure Rules as detailed at section 2 of the report be approved and incorporated into the Council's Constitution, issue no. 21.

(b) The Director of Governance and Monitoring Officer be authorised to make any associated incidental changes to the Constitution.

The meeting ended at 6.43 pm.

Public Document Pack

Minutes of the meeting of the **GOVERNANCE COMMITTEE** held at the Council Offices, Whitfield on Monday, 30 July 2018 at 6.00 pm.

Present:

Chairman: Councillor P G Heath

Councillors: B W Butcher
P I Carter
M R Eddy
B Gardner (as substitute for Councillor M I Cosin)
D Hannent

Officers: Head of Finance
Audit Manager (Grant Thornton)
Democratic Services Officer

10 APOLOGIES

There were apologies for absence received from Councillors S F Bannister and M I Cosin.

11 APPOINTMENT OF SUBSTITUTE MEMBERS

It was noted that, in accordance with Council Procedure Rule 4, Councillor B Gardner had been appointed as substitute for Councillor M I Cosin.

12 DECLARATIONS OF INTEREST

There were no declarations of interest made by Members.

13 AUDIT FINDINGS REPORT

The Audit Manager (Grant Thornton) presented the Audit Findings report which highlighted the key issues arising from the audit of the financial statements for the year ended 31 March 2018.

Grant Thornton were proposing to provide an unqualified audit opinion in respect of the financial statements and Value For Money. A number of presentational findings were agreed as part of the audit process which were all fairly minor and had all been incorporated into the statement being presented to Members. They were happy with officer support provided and there was nothing specific that needed to be highlighted to Members.

With regard to the Property Investment Strategy, some Members were concerned the purchasing of commercial and residential properties was not being put before the Project Advisory Groups (PAGs) and instead being dealt with by the Portfolio Holder under delegated powers. It was of interest to Members to see what properties were being considered and where, as well as the level of investment and return. It was explained that the purchase of such properties was time critical and that going before the PAGs could delay the process. Grant Thornton commented that they were satisfied minimum standards were being followed and controls were in place. The Head of Finance also reminded Members that details of property investments were reported in the Quarterly Budget Monitoring Report and would

now also be included in the Quarterly Treasury Management Reports and Year End Report.

RESOLVED: (a) That the report be noted.

(b) That a Property Investment Update be provided to the next meeting of the Committee.

14 FINANCIAL OUTTURN 2017/18

The Head of Finance presented the Financial Outturn 2017/18 report to Members, which was to be considered with both the Statement of Accounts and the Audit Findings Report. Members' attention was drawn to the key points in the financial outturn for the year as set out in the report.

In response to a query from Councillor B Gardner, Members were advised that the funds for works to Deal Pier were accounted for in the 2018/19 Approved Project and that these works had been brought forward. If the works undertaken required changes to the project and additional budget requirements then additional resources would be requested and considered as part of the 2019/20 budget setting process.

Members expressed their thanks to the auditors and staff for their work in producing the report.

RESOLVED: That the report be received and noted

15 STATEMENT OF ACCOUNTS 2017/18

The Head of Finance presented the audited Statement of Accounts for 2017/18 to the Committee. The auditors, Grant Thornton had given an unqualified opinion in respect of the accounts, with just a small number of minor adjustments and disclosure amendments made to the draft statement of accounts in order to improve the overall presentation of the financial statements.

RESOLVED: (a) That the audited Statement of Accounts for 2017/18 be approved and signed by the Chairman of the committee.

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

16 TREASURY MANAGEMENT YEAR END REPORT

The Head of Finance introduced the Treasury Management Year End report to the Committee which covered the outturn for the year ending March 2018. Members' attention was drawn to the main points covered in the summary of the report, which included: having outperformed the benchmark; and that the Council had remained within its Treasury Management guidelines and complied with the Prudential Code guidelines during the period.

RESOLVED: That the report be noted.

The meeting ended at 6.46 pm.

Subject: REVIEW OF THE CONSTITUTION 2018 – COUNCIL QUESTIONS AND ANSWERS

Meeting and Date: Governance Committee – 27 September 2018
Council – 31 October 2018

Report of: Director of Governance

Classification: UNRESTRICTED

Purpose of the report: To make provision for written answers to be provided to questions asked on notice by Members at meetings of the full Council.

Recommendation: (a) That it be recommended to the Council that it amend Council Procedure Rule 12 of the Constitution of the Council to include the addition of a new rule 12.5 as follows:

“12.5 A Member raising a question under Council Procedure Rule 12.1 will be provided at the closure of the Council meeting with the written information prepared by officers as background to the relevant member of the executive’s verbal answer to the question. This written information will be made available to all other Members of the Council alongside the following week’s edition of the Members’ Weekly News.”

(b) That it be recommended to the Council that the amendment take place with immediate effect so as to enable its application at the meeting of the full Council to be held on 31 October 2018.

1. Summary

This report seeks to make provision through the amendment of Council Procedure Rule 12 for written answers to questions on notice asked by Members at the meetings of the full Council.

2. Introduction and Background

2.1 The Review of the Constitution 2018 contained a proposal for providing written answers to questions asked on notice by Members at meetings of the full Council. This had been included at the request of Councillor M R Eddy and recommended to the full Council by the Governance Committee at its meeting held on 28 June 2018.

2.2 The report proposed amending Council Procedure Rule 12 to add a new paragraph 12.5 as follows:

“12.5 After the Council meeting, a copy of the questions and the answers will be given to the Members asking the questions and made available to all other Members of the Council via the Minutes of the meeting.”

2.3 The proposed new Council Procedure Rule (as set out at paragraphs 2.21 to 2.24 of the original report) was not adopted by the full Council at its meeting held on 25 July 2018 due to concerns over its wording. However, the Leader of the Council and the

Leader of the Opposition agreed to explore the options for alternative wording that would achieve the intended aim while addressing the concerns raised by Members.

- 2.4 Following discussions with the Leader of the Council and the Leader of the Opposition, the following form of wording is proposed for members consideration:

“12.5 A Member raising a question under Council Procedure Rule 12.1 will be provided at the closure of the Council meeting with the written information prepared by officers as background to the relevant member of the executive’s verbal answer to the question. This written information will be made available to all other Members of the Council alongside the following week’s edition of the Members’ Weekly News.”

- 2.5 It is proposed that this form of wording be adopted and the Constitution amended accordingly.
- 2.6 It should be noted that the proposed amendment to Council Procedure Rule 12 does not affect the current situation in respect of supplementary questions and no written answers will be provided to them as part of these proposals.
- 2.7 It should also be noted that where officers do not prepare written information as background for a question asked on notice to an executive member then no written answer will be provided.

Current Procedure in Respect of Questions on Notice

- 2.8 The Council’s Constitution makes provision under the Council Procedure Rule 12 for Members of the Council to submit written questions on notice to Committee Chairmen and members of the Executive (Cabinet) to be asked at ordinary meetings of the full Council.
- 2.9 The answer to these questions (as set out in Council Procedure Rule 12.4) may take the form of:
- (1) A direct oral answer (the preferred approach); or
 - (2) Where the desired information is in a publication of the Council or other published work, a reference to that publication; or
 - (3) A written answer circulated later to the questioner where the reply cannot concisely or conveniently be given or to support an oral answer.

The person of whom a question has been put may also decline to answer, but must provide a valid reason for this approach.

- 2.10 A further supplementary question, not on notice, may be asked by the questioner so long as it arises directly out of the original question or reply.
- 2.11 Although there is no requirement to do so, the Minutes of the meeting usually contain a non-verbatim summary of the answer provided to the question on notice.
- 2.12 The Member asked a question on notice at the full Council will, unless they indicate otherwise, have a short briefing note prepared by officers for them to assist them in formulating their answer to the question. It should be noted that members of the Executive are under no obligation to use the briefing prepared by officers for them.

3. Identification of Options

- 3.1 Option 1: To amend Council Procedure Rule 12 with the addition of a new Council Procedure Rule 12.5 as set out in paragraph 2.4 of the report.

- 3.2 Option 2: To not amend Council Procedure Rule 12 and continue with the procedures set out in the current Council Procedure Rule 12. These are set out in version 21 of the Constitution of the Council.
- 3.3 Option 3: To amend or replace the proposed new Council Procedure Rule 12.5 with an alternative wording which may for example include applying the procedure to questions asked of the chairman or vice-chairman and the chairman of any committee or sub-committee, all of whom can be asked question under Council Procedure Rule 12.1
4. **Evaluation of Options**
- 4.1 Option 1 is the preferred option as it meets the requirements identified by the Leader of the Council and the Leader of the Opposition.
- 4.2 However, it should be noted that Options 2 and 3 both provide for an administratively deliverable approach to questions on notice at full Council. In the case of Option 2, it simply continues the current arrangements. Option 3 would deliver consistency in approach to all questions asked pursuant to Council Procedure Rule 12.1.
5. **Resource Implications**
- 5.1 There are no resource implications arising other than negligible costs around the production of a small number of printed written answers.
6. **Corporate Implications**
- 6.1 There are no corporate implications.
7. **Appendices**
- None
8. **Background Papers**
- Constitution of the Council (version 21)

Contact Officer: Rebecca Brough, Democratic Services Manager, 01304 872304

Subject: QUARTERLY INTERNAL AUDIT UPDATE REPORT

Meeting and Date: Governance Committee – 27th September 2018

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 2018

Recommendation: That Members note the update report.

1. Summary

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

2. Introduction and Background

- 2.1 For each Audit review, management has agreed a report, and where appropriate, an Action Plan detailing proposed actions and implementation dates relating to each recommendation. Reports continue to be issued in full to each member of Corporate Management Team, as well as an appropriate manager for the service reviewed.
- 2.2 Follow-up reviews are performed at an appropriate time, according to the status of the recommendation, timescales for implementation of any agreed actions and the risk to the Council.
- 2.3 An Assurance Statement is given to each area reviewed. The assurance statements are linked to the potential level of risk, as currently portrayed in the Council's risk assessment process. The assurance rating given may be Substantial, Reasonable, Limited or No assurance.
- 2.4 Those services with either Limited or No Assurance are monitored, and brought back to Committee until a subsequent review shows sufficient improvement has been made to raise the level of Assurance to either Reasonable or Substantial. A list of those services currently with such levels of assurance is attached as Annex 2 to the EKAP report.
- 2.5 The purpose of the Council's Governance Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent review of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.
- 2.6 To assist the Committee meet its terms of reference with regard to the internal control environment an update report is regularly produced on the work of internal audit. The purpose of this report is to detail the summary findings of completed audit

reports and follow-up reviews since the report submitted to the last meeting of this Committee.

SUMMARY OF WORK

- 2.7 There have been eight internal audit assignments completed during the period, which are summarised in the table in section 2 of the report.
- 2.8 In addition ten follow-up reviews have been completed during the period, which is detailed in section 3 of the quarterly update report.
- 2.9 For the three month period to 30th June 2018, 61.87 chargeable days were delivered against the revised target of 242.89, which equates to 25.47% 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 2018-19 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 2018-19 - Previously presented to and approved at the 8th April 2018 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 30th June 2018.

2. SUMMARY OF REPORTS:

Service / Topic		Assurance level	No. of Recs.	
2.1	EKHR - Payroll	Substantial	C H M L	0 0 0 0
2.2	CIVICA – Council Tax Reduction Scheme	Substantial	C H M L	0 0 0 0
2.3	EKHR – Employee Allowances & Expenses	Substantial/ Reasonable	C H M L	0 0 3 2
2.4	Income	Substantial/ Reasonable	C H M L	0 3 1 1
2.5	Homelessness	Substantial/ Limited	C H M L	4 15 4 0
2.6	Creditors & CIS	Reasonable	C H M L	X X X X
2.7	Grounds Maintenance	Reasonable	C H M L	0 2 3 1
2.8	Sandwich Historical Boatyard	Not Applicable	C H M L	2 4 0 0

2.1 EKHR: Payroll – Substantial Assurance

2.1.1 Audit Scope

To ensure that the payroll service administered by EKHR on behalf of Canterbury, Dover and Thanet Councils, including EK Services is adequately controlled to ensure that the right people are getting paid the right amounts at the right time. Also that all overtime payments are valid and properly authorised.

2.1.2 Summary of Findings

The payroll function has been managed by EKHR since November 2015. The service pays an average of £2.7m in net salaries each month to 1958 (at January 2018) employees at Canterbury, Dover and Thanet District Councils.

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

- EKHR is working to an SLA however this is in draft form;
- Many payroll reconciliation procedures are in place;
- Basic pay and overtime pay claimed by manual workers at Manston depot demonstrated that checking procedures are in place, additions are correct and claims are authorised by a supervisor in 100% of the sample tested;
- Statutory payments are made in line with requirements;
- Payroll system access is password protected and passwords are renewed every 90 days.

2.2 CIVICA: Council Tax Reduction Scheme – Substantial Assurance

2.2.1 Audit Scope

To ensure that the Council Tax Reduction Scheme has been implemented correctly by Civica as intended by the partner authorities of Canterbury CC, Dover DC and Thanet DC.

2.2.2 Summary of Findings

As part of the Welfare Reform Act 2012 the Government announced that from 1st April 2013 council tax benefit would be abolished and councils would need to design and operate their own local Council Tax Support Scheme. The new scheme was adopted by the Councils in January 2013 and has remained in place and largely unchanged since 2013. Some minor changes have however been made to the schemes since 2013 to both align all three schemes, and to change the amount of relief granted under the schemes.

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

- All three Council Tax Reduction Schemes (CTRS) have been properly approved and adopted by each Council.
- All three schemes are well publicised on each Council website.
- System parameters are extensively tested prior to them being loaded into the live systems for the commencement of the new billing year.
- All relevant staff are provided with detailed guidance notes on the scheme.

- Quality assurance checks are in place to identify errors in calculations of claims for Council Tax reductions.
- All calculations checked during audit testing were found to be correct.
- Each Council has a well-publicised appeals process in place for claimants which are dissatisfied with the outcome of their claim for Council Tax reduction.

2.3 EKHR: Employee Allowances & Expenses – Substantial Assurance

2.3.1 Audit Scope

To provide the partner councils with assurance that staff allowances are valid, appropriate and are authorised by management, ensuring that the payment of staff allowances is adequately controlled and managed.

2.3.2 Summary of Findings

The EKHR Payroll Function processes thousands of £s of allowances and expenses each month to employees on behalf of Dover, Canterbury, Thanet councils and East Kent Housing. This particular audit focused on expenses and allowances processed during the December 2017 pay run.

Management can place Reasonable Assurance on the system of internal controls in operation for the processing and authorisation of employee allowances and expenses for Thanet District Council and Substantial Assurance for Dover District Council, Canterbury City Council and East Kent Housing.

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

- All 100 sample payments checked were either authorised through the East Kent People system or were supported by authorised paperwork in the employee HR files;
- Procedures and processes within EKHR were operating effectively;
- System based interfacing, audit trail and processes were working effectively; and
- The EKHR intranet page is used to communicate with staff and management.

Scope for improvement was however identified in the following area:

- Between April 2017 and December 2017 a number of payments were processed for t employees which were valid but were outside the scope of the current approved policy and therefore
- There is a need for each authority to acknowledge roles and responsibilities for reviewing and approving their own allowance and expense policies.

2.4 Income – Substantial/Reasonable Assurance

2.4.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that all income due to the Council is completely and accurately accounted for in a timely manner. The scope of the audit will include:

- Postal Remittances;
- Processing of cheque payments;
- Processing of all forms of imports;
- Phone payments (both automated and Call Centre; which are processed through Adelante);
- Internet payments;
- Face to Face chip and pin payments;
- Any cash or cheque payments received;
- Allocations from the Council's main income suspense account; and the
- Interface of income into other systems i.e. Cedar e-financials, Sundry Debtors, Housing Rents, Business Rates, Council Tax, etc.

2.4.2 Summary of Findings

The Council's income processes have not changed since the last review process in 2014/15. What was however noticeable is the shift in the Council's preferred methods of payments and the desire to have a cashless system. The webpages definitely support this desire and further work will be undertaken to minimise the cash handling.

Testing has established that Management can place both Substantial and Reasonable Assurance on the system of internal controls in operation.

The controls that are effective and give rise to the substantial assurance level are as follows;

- Well managed Cheque, Giro and Bank processing;
- Timely and effective Reconciliation Processes;
- Strong controls over Car Parking cash collection, income processing and reconciliation; and
- Effective cash collection contract.

With minor improvements required in the following:

- Post room cheque handling and processing.

The primary findings giving rise to the Reasonable Assurance opinion are given as follows; it should be noted that these are all part of the income process and as such attention should be drawn to and given to these areas;

- Ineffective Insurance levels;
- Poor control over cash handling within the finance office;
- Incorrect accounting treatment of any unders and overs for the Gateway and Whitfield offices; and
- Processing of cash and cheques via the income team needs to be undertaken in a timely manner.

2.5 Homelessness – Substantial/Limited Assurance

2.5.1 Audit Scope

To provide assurance that the Council deals fairly and efficiently with all homelessness applications whilst:

- Minimising the length of stay in temporary accommodation;
- Minimising the cost to the Council of temporary accommodation; and
- Maximising income from all available sources to cover the costs incurred.

2.5.2 Summary of Findings

Homelessness is increasing across East Kent and this is effecting the Council's financial position. The Homelessness Prevention Act 2017 (HPA) came in to effect in April 2018 and requires local authorities to provide more advice and resource targeted at preventing homelessness. The new duties this places on the Council makes it a substantially more challenging and time consuming process for every person presenting as homeless. The audit examined work undertaken largely before the new HPA came into effect, so some practices will have changed and the demands of the HPA is likely to make it more challenging to address the issues in this audit report. This audit has identified some service strengths but also some weaknesses in the Council's internal control framework which are used to maximise income and minimise expenditure.

In summary: -

- The Council is not neglecting the homeless but accepting too many;
- The length of stay in some types of temporary accommodation was excessive in some cases;
- The Council is not recovering all the income it is due;
- Accepting the recommendations in this report could reduce expenditure and increase income by approximately £80k per annum;

The main issues that need to be addressed: -

- The structure and processes of the team need to be re-designed so staff are able to specialise in specific areas when required;
- The management information produced by the current processes is insufficient for management to act and needs to be redesigned;
- A number of additional controls and efficiency measures are also required; and
- A dedicated income recovery resource is required.

Management can place Substantial Assurance that the Council is fulfilling its statutory duties in respect of homelessness and Limited Assurance on the system of internal controls in operation for achieving the objectives: -

The primary findings giving rise to the assurance opinions in this area are as follows:

Statutory Duties – Substantial Assurance

Effective control was evidenced in the following areas:

- The Council is compliant with homelessness legislation; however evidence seen as part of this audit suggests the Council is not sufficiently rigorous in its assessment of those in 'priority need' and in challenging tenants whose behaviour and rent payments fall below applicable standards agreed;

- Over the past couple of months there is emerging evidence to suggest people are being moved out of temporary accommodation more quickly; and
- The Council is successfully increasing its portfolio of HRA funded temporary accommodation which will help bring down expenditure and should continue to be the medium/long term strategy for sourcing temporary accommodation.

Length of Stay in Temporary Accommodation – Limited Assurance

- Acceptances as homelessness cases in priority need were not being processed consistently and there is evidence to suggest some cases should not have been accepted in the first instance however all cases are now being reviewed by a senior officer or manager but this is not documented;
- Households were not consistently moved out of temporary accommodation and into alternative accommodation quickly enough; however the Auditor acknowledges that the Council attempts to balance the need to move people out of temporary accommodation quickly with the need to try stop incentivising homelessness;
- There are some cases where the duty to a household was discharged after an applicant refused alternative accommodation more than twice or had failed to pay their service charges but action was not taken to end the provision of homelessness accommodation;
- Management have limited control over caseloads because cases are managed by one officer from the application through to its conclusion; and
- Management need to clarify further, and ensure it enforces the standard of behaviour and financial obligations placed upon homelessness applicants.

Maximising Income and Minimising Expenditure – Limited Assurance:

- The Council is placing working households in temporary accommodation and not consistently chasing the shortfall in their rental liabilities;
- There is at least £101k outstanding in unpaid Housing Benefit or Universal Credit which cannot be attributed to a delay in processing the applicants benefit claim;
- There is an urgent need to formally clarify roles and responsibilities for chasing payments and chasing claims for housing benefit and universal credit;
- There is an urgent need to change, adapt and clarify all of the recovery processes in place to ensure all income due is effectively chased; and
- The Auditor has identified specific case by case opportunities to target the recovery of either large amounts of missing universal credit income and missing service charge income. There is also missing rent deposit scheme income which is not being chased effectively.

Governance:

- The Service / Business Plan does not address the need to increase and maximise all available income streams;
- The Service / Business Plan should include the risk that the Council may fail to source new cheaper temporary accommodation as an alternative to B&B;
- There is an urgent need to introduce some additional management performance indicators to ensure financial performance is monitored; and
- There is a need for better quality management information in order to manage people, processes and the service.

2.5.3 Management Response:

The last few homelessness Audit reports have resulted in a substantial assurance however this latest audit was commissioned by the Director of Finance, Housing and Community in order to review the service in a different and more challenging way.

Homelessness within the district had been rising steadily putting increasing pressure on the General Fund. It was felt necessary to ensure that staff within the Housing Options team were consistent and that processes were robust and effective.

We are very grateful to the auditor for a thorough review of every aspect of the service which has identified areas of weakness and potential training issues as well as highlighting what we are currently doing well.

The majority of recommendations have been accepted with many already implemented and the follow up is due in December 2018.

2.6 Creditors & CIS – Substantial Assurance

2.6.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that only bona-fide invoices are paid, and that the correct procedures have been applied in the way in which the expenditure was incurred.

2.6.2 Summary of Findings

The payments process has been established for a number of years using the Cedar e-financials system with a small team of officers delivering the service to the Council.

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

- There are clear procedures in place for all staff with regards to the creditors process;
- Clear lines of responsibility and separation of duties have been demonstrated;
- Computer updates are being effectively managed and any additional training needs have been identified and provided for;
- Systems in place for the Construction Industry Scheme are working well; and
- The performance indicator has been increased considerably since the last audit review and the target set has been exceeded for the last three years.

Scope for improvement was however identified in the following areas:

- Data being extracted to meet transparency requirements needs to be consistent and the figures need to be presented in a meaningful user-friendly way;
- Clarification over the use of invoices for the input of bank details needs to be sought as this does not conform with the current procedures in place.

2.7 Grounds Maintenance – Reasonable Assurance:

2.7.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the grounds maintenance function is being carried out efficiently and effectively within an appropriate control framework which reduces any risks to an acceptable level.

2.7.2 Summary of Findings

In 2016 Members made the decision to bring the grounds maintenance service back in house with effect from 1st April 2017 after it had been contracted out for the previous ten years. By bringing the service back in house there was an immediate saving of £200,000 on the annual budget. There is now an annual budget of £1 million for the grounds maintenance provision with the biggest cost being staff. An additional benefit is that the service can be managed and monitored more effectively and responsively than an out sourced provision.

This audit has reviewed the processes and procedures that have been in place during the first year of the in house service and has concluded that Management can place Reasonable Assurance on the system of internal controls in operation.

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

- Resources are in place to deliver both the summer and winter programmes of works with employees contributing to the development of the current grass cutting routines.
- There have been positive comments received from residents across the district on the quality of the work being carried out.
- Health and safety documentation is being reviewed and developed (i.e spot check inspection forms) to ensure that employees are aware of the risks and the actions that they have to take to address them.
- Processes and equipment are in place to ensure that employees are not being over exposed to working with vibrating equipment and the use of the equipment is being monitored on a regular basis by management.

Scope for improvement was however identified in the following areas:

- Formal servicing and maintenance contracts should be put in place for equipment that require them, in the same way as the contract that is in place for the ride on mowers.
- Controls at the depots could be enhanced to ensure compliance with health and safety and insurance requirements, these include sign in sign out processes for visitors, ensuring they are wearing appropriate clothing (i.e. High viz) and regular testing and servicing of the CCTV system.

2.8 Sandwich Historical Boatyard Investigation– An Assurance Assessment is Not Applicable for this Review

- 2.81 This item restricted and not for publication by reason that it contains information which is exempt by virtue of the provisions of Paragraph 1 (Information relating to any individual) of Part I of Schedule 12A of the Local Government Act 1972. To be discussed after the exclusion of the press and public.

3.0 FOLLOW UP OF AUDIT REPORT ACTION PLANS:

3.1 As part of the period's work, ten 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)	Officers' Code of Conduct & Gifts & Hospitality	Reasonable	Substantial	C	0	C	0
				H	0	H	0
				M	3	M	0
				L	2	L	0
b)	Contract Standing Order Compliance	Reasonable	Substantial	C	0	C	0
				H	0	H	0
				M	5	M	0
				L	0	L	0
c)	Land Charges	Reasonable /Limited	Reasonable /Limited	C	0	C	0
				H	7	H	1
				M	3	M	0
				L	2	L	0
d)	External Funding Protocol	Reasonable	Reasonable	C	0	C	0
				H	3	H	0
				M	3	M	0
				L	0	L	0
e)	CCTV	Substantial	Substantial	C	0	C	0
				H	0	H	0
				M	2	M	0
				L	1	L	0
f)	Local Code of Corporate Governance	Reasonable	Reasonable	C	0	C	0
				H	0	H	0
				M	2	M	0
				L	1	L	0
g)	Sandwich Historical Boatyard	Not Applicable	Not Applicable	C	2	C	0
				H	4	H	0
				M	0	M	0
				L	0	L	0
h)	East Kent Housing – Data Protection & Records Mngmt.	Reasonable	Reasonable	C	0	C	0
				H	3	H	0
				M	0	M	0
				L	0	L	0
i)	East Kent Housing – Risk Management	Reasonable	Reasonable	C	0	C	0
				H	0	H	0

Service/ Topic		Original Assurance level	Revised Assurance level	Original Number of Recs		No of Recs Outstanding	
				M	3	M	0
				L	1	L	0
j)	EKS Business Rates	Substantial	Substantial	C	0	C	0
				H	1	H	0
				M	2	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.

3.3 As highlighted in the above table, those areas previously reported as having either Limited or No assurance have been reviewed and, in respect of those remaining at below Reasonable assurance, Members are advised as follows:

a) Land Charges:

The Council's Land Charges day to day processes are continuing to work well and the main issues that still need to be addressed are the annual statement has not been produced by 30th June 2018 and published and work has only recently started on the cost neutral exercise.

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: ICT PSN review, Council Tax Reduction Scheme, ICT Procurement & Disposals. Project Management, East Kent Housing - Contract Management, Building Control, HMO Licensing and White Cliffs Countryside Project.

5.0 CHANGES TO THE AGREED AUDIT PLAN:

5.1 The 2018-19 Audit plan was agreed by Members at the meeting of this Committee on 8th April 2018.

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

6.0 FRAUD AND CORRUPTION:

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

7.0 INTERNAL AUDIT PERFORMANCE

- 7.1 For the three month period to 30th June 2018, 61.87 chargeable days were delivered against the revised target of 242.89, which equates to 25.47% 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.
- 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 31st May 2018 against the agreed 2018/19 Audit Plan.
Annex 4 Balanced Scorecard of performance indicators to 30th June 2018.
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>Land Charges – August 2018:</i>		
<p>Annual statement in accordance with legislation and good governance should be produced, authorised by the Section 151 Officer and placed on the Dover District Council website (by 30th June) for each financial year.</p>	<p>This has been produced for this year by Accountancy with input from LLC using 2014-2015 working notes. It has been agreed to publish the notice for this year at the Council Offices at Whitfield. Going forward, once the cost neutral exercise has been carried for 2018/2019, the published notice should be reviewed to ensure it is as clear and simple to understand as possible and only provides the information required. The notice would then be published annually on the DDC website.</p> <p>Proposed Completion Date / Responsibility</p> <p>Completed</p>	<p>This has not been produced for 2018/19.</p> <p>Recommendation is outstanding</p>

SERVICES GIVEN LIMITED / NO ASSURANCE LEVELS STILL TO BE REVIEWED			
Service	Reported to Committee	Level of Assurance	Follow-up Action Due
Inward Investment	December 2017	Reasonable/Limited	Summer/Autumn 2018

PROGRESS AGAINST THE AGREED 2018-19 AUDIT PLAN.

DOVER DISTRICT COUNCIL:

Review	Original Planned Days	Revised Planned Days	Actual days to 30-06-2018	Status and Assurance Level
FINANCIAL SYSTEMS:				
Capital	10	10	0	Quarter 3
Bank Reconciliation	5	5	0	Quarter 3
VAT	10	10	0	Quarter 3
RESIDUAL HOUSING SYSTEMS:				
Homelessness	10	20	17.2	Finalised – Substantial/Limited
Housing Allocations	10	0	0	Budget used for the Homelessness review
GOVERNANCE RELATED:				
GDPR, FOI and Information Management	15	15	0.18	Work-in-progress
Anti-Fraud & Corruption Assurance Mapping	10	10	0.61	Work-in-progress
Complaints Monitoring	10	10	0	Quarter 4
Risk Management	10	10	0	Quarter 3
Corporate Advice/CMT	2	2	1.14	Work-in-progress throughout 2018-19
s.151 Meetings and support	9	9	3.67	Work-in-progress throughout 2018-19
Governance Committee Meetings and Reports	12	12	4.21	Work-in-progress throughout 2018-19
2019-20 Audit Plan Preparation and Meetings	9	9	0	Quarter 4
SERVICE LEVEL:				
Safeguarding Children & Vulnerable Adults	10	10	0	Quarter 3
Private Sector Housing & HMO Licensing	10	10	0.65	Work-in-progress

Review	Original Planned Days	Revised Planned Days	Actual days to 30-06-2018	Status and Assurance Level
Food Safety	10	10	0.18	Quarter 2
Pest Control	10	10	0.18	Quarter 2
Events Management	10	10	0	Quarter 4
Local Plan, MTFP and Corporate Plan	10	10	0	Quarter 4
Building Control	12	12	0.18	Work-in-progress
Uniform iDox – Post Implementation Review	13	13	0	Quarter 3
White Cliffs Countryside & Up on the Downs	12	12	0.18	Work-in-progress
Waste Management & Street Cleansing	15	15	0	Quarter 4
OTHER				
Liaison with External Auditors	1	1	0	Work-in-progress throughout 2018-19
Follow-up Work	15	15	1.61	Work-in-progress throughout 2018-19
FINALISATION OF 2017-18- AUDITS				
Car Parking & PCNs	5	0	0.44	Finalised - Reasonable
Creditors & CIS			9.29	Finalised - Reasonable
Licensing			1.72	Finalised - Reasonable
Income			8.35	Finalised – Substantial/Reasonable
Project Management			3.02	Work-in-Progress
Grounds Maintenance			8.79	Finalised - Reasonable
Coastal Management			0.27	Quarter 4
Days over delivered in 2017-18	0	-7.11		Completed
TOTAL	255	242.89	61.87	25.47% as at 30th June 2018

EAST KENT HOUSING LIMITED:

Review	Original Planned Days	Revised Planned Days	Actual days to 30-06-2018	Status and Assurance Level
Planned Work:				
CMT/Audit Sub Ctte/EA Liaison	4	4	1.55	Work-in-progress throughout 2018-19
Follow-up Reviews	4	4	0.27	Work-in-progress throughout 2018-19
Repairs & Maintenance	30	30	0	Quarter 3
Void Property Management	20	20	0	Quarter 3
Tenant Health & Safety	20	20	0	Quarter 4
Contract Monitoring	17	17	20.28	Work-in-progress
Performance Management	15	15	0.7	Work-in-progress
Welfare Reform	10	10	0.18	Quarter 3
Resident Involvement	10	10	0.18	Quarter 3
Service Level Agreements	10	10	0	Quarter 4
Finalisation of 2017-18 Work-in-Progress:				
Days under delivered in 2017-18	0	10.94		Allocated
Complaints Monitoring	0	0	0.36	Work-in-progress
GDPR & Information Mngmt.	0	0	4.14	Finalised - Reasonable
Leasehold Services	0	0	1.15	Finalised – Reasonable/Limited
Tenancy & RTB Fraud Prevention	0	0	7.23	Work-in-Progress
Property Services Action Plan	0	0	8.14	Finalised - Reasonable
Total	140	150.94	44.18	29.27% at 30-06-2018

EAST KENT SERVICES:

Review	Original Planned Days	Revised Planned Days	Actual days to 30-06-2018	Status and Assurance Level
CIVICA Reviews:				
Housing Benefits Assessment	15	15	0	Quarter 3
Housing Benefit Testing	15	15	0	Quarter 3
Housing Benefits – DHPs	15	15	0.15	Work-in-Progress
Debtor Accounts	20	20	0	Quarter 3
EKS Reviews:				
ICT – Network Security	15	10	0	Quarter 3
ICT – PSN Review	0	5	14.97	Work-in-Progress
ICT – PCI-DSS Compliance	15	15	0	Quarter 4
KPIs	5	5	0.10	Quarter 4
EKHR Reviews:				
Payroll	15	15	0	Quarter 4
Apprenticeships	15	15	0.17	Work-in-Progress
Absence Management	15	15	0	Quarter 3
Other:				
Corporate/Committee	8	8	2.29	Work-in-progress throughout 2018-19
Follow up	7	7	0.75	Work-in-progress throughout 2018-19
Days under delivered in 2017-18	0	47.79	0	Allocated as below
Finalisation of 2017/18 Audits:				
Housing Benefit Testing			6.82	Finalised
Payroll			4.89	Finalised - Substantial
Employee Allowances & Expenses			0.68	Draft Report
ICT – Procurement & Disposal			12.82	Work-in-Progress
Council Tax Reduction Scheme			8.82	Finalised - Substantial
Total	160	207.79	52.45	25% at 30-06-2018

<u>INTERNAL PROCESSES PERSPECTIVE:</u>	<u>2018-19 Actual</u>	<u>Target</u>	<u>FINANCIAL PERSPECTIVE:</u>	<u>2018-19 Actual</u>	<u>Original Budget</u>
	Quarter 1		Reported Annually		
Chargeable as % of available days	84%	80%	<ul style="list-style-type: none"> • Cost per Audit Day 	£	£300.38
Chargeable days as % of planned days			<ul style="list-style-type: none"> • Direct Costs 	£	£385,970
CCC	22%	25%	<ul style="list-style-type: none"> • + Indirect Costs (Recharges from Host) 	£	£10,530
DDC	25%	25%	<ul style="list-style-type: none"> • - 'Unplanned Income' 	£	Zero
F&HDC	23%	25%	<ul style="list-style-type: none"> • = Net EKAP cost (all Partners) 	£	£396,500
TDC	16%	25%	<ul style="list-style-type: none"> • Saving Target (10% of 2016-17) 	£34,620	10%
EKS	25%	25%			
EKH	29%	25%			
Overall	23%	25%			
Follow up/ Progress Reviews;					
<ul style="list-style-type: none"> • Issued 	8	-			
<ul style="list-style-type: none"> • Not yet due 	18	-			
<ul style="list-style-type: none"> • Now due for Follow Up 	39	-			
Compliance with the Public Sector Internal Audit Standards (PSIAS) (see Annual Report for more details)	Partial	Full			

<u>CUSTOMER PERSPECTIVE:</u>	<u>2018-19 Actual</u>	<u>Target</u>	<u>INNOVATION & LEARNING PERSPECTIVE:</u>	<u>2018-19 Actual</u>	<u>Target</u>
	Quarter 1				
Number of Satisfaction Questionnaires Issued;	20		Percentage of staff qualified to relevant technician level	75%	75%
Number of completed questionnaires received back;	3 (ICT Issue) = 15%		Percentage of staff holding a relevant higher level qualification	38%	38%
Percentage of Customers who felt that;			Percentage of staff studying for a relevant professional qualification	14%	N/A
<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	0.75	3.5
	100%	100%	Percentage of staff meeting formal CPD requirements (post qualification)	38%	38%

Definition of Audit Assurance Statements & Recommendation Priorities

Assurance Statements:

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

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

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

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

Priority of Recommendations Definitions:

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

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

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

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

Annual Audit Letter

Year ending 31 March 2018

Dover District Council

30 August 2018



Contents



Your key Grant Thornton team members are:

Darren Wells

Engagement Lead

T: 012 9355 4120

E: darren.j.wells@uk.gt.com

Tom Slaughter

Audit Manager

T: 020 7728 2972

E: thomas.m.slaughter@uk.gt.com

Tosin Orekoya

In-Charge Accountant

T: 020 7865 2522

E: tosin.o.Orekoya@uk.gt.com

37

Section

1. Executive Summary
2. Audit of the Accounts
3. Value for Money conclusion

Page

3

4

[...]

Appendices

- A Reports issued and fees
- B Recommendations

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Dover District Council (the Council) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Governance Committee as those charged with governance in our Audit Findings Report on 30 July 2018.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £1,584,000, which is 2% of the Council's gross cost of services expenditure..
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 31 July 2018.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 31 July 2018.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2018. We will report the results of this work to the Governance Committee in our Annual Certification Letter.
Certificate	We certify that we have completed the audit of the accounts of Dover District Council in accordance with the requirements of the Code of Audit Practice.

Respective responsibilities

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

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

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

Audit of the Accounts

Our audit approach

Materiality

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

We determined materiality for the audit of the Council's accounts to be £1,584,000, which is 2% of the Council's gross cost of services expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for cash and cash equivalents of £500,000.

We set a lower threshold of £79,000, above which we reported errors to the Governance Committee in our Audit Findings Report.

The scope of our audit

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

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts and the governance statement published alongside the Statement of Accounts to check they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

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

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

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

Audit of the Accounts

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>You face external scrutiny of your spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>We undertook the following procedures in relation to this risk:</p> <ul style="list-style-type: none"> – gained an understanding of the significant accounting estimates, judgements applied and decisions made by management and consider their reasonableness; – obtained a full listing of journal entries, identified and then tested unusual journal entries for appropriateness; and – evaluated the rationale for any changes in accounting policies or significant unusual transactions that came to out attention during the course of the audit. 	<p>Our audit work did not identify any issues in respect of this risk.</p>
<p>Valuation of pension fund net liability</p> <p>Your pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration and a key audit matter for the audit.</p>	<p>We undertook the following procedures in relation to this risk:</p> <ul style="list-style-type: none"> – identified the controls put in place by management to ensure that the pension fund liability is not materially misstated and assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement; – evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation; – gained an understanding of the basis on which the valuation was carried out; – undertook procedures to confirm the reasonableness of the actuarial assumptions made; and – checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary, Barnett Waddingham. 	<p>Our audit work did not identify any issues in respect of this risk.</p>

Audit of the Accounts

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of property, plant and equipment You revalue your land and buildings on an quinquennial basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration and a key audit matter for the audit.</p>	<p>We undertook the following procedures in relation to this risk:</p> <ul style="list-style-type: none"> – reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; – considered the competence, expertise and objectivity of valuation experts used by management; – discussed with the valuer the basis on which the valuation is carried out and challenged the key assumptions; – reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding; – tested revaluations made during the year to ensure they have been input correctly into your asset register; and – evaluated the assumptions made by management for those assets not revalued during the year to verify how management have satisfied themselves that these are not materially different to their current value. 	<p>Our audit work did not identify any issues in respect of this risk.</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 31 July 2018, in advance of the national deadline.

Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Governance Committee on 30 July 2018.

We raised two recommendations for management as a result of our audit work, which are set out in Appendix B.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published the Narrative Report within the Statement of Accounts and the Annual Governance Statement on its website alongside the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Dover District Council in accordance with the requirements of the Code of Audit Practice. We confirm that the audit is now complete.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

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

Key findings

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

The key risks we identified and the work we performed are set out overleaf.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

Value for Money conclusion

Key Value for Money Risks

Significant risk

Budget position and medium term financial planning

The national local government settlement has placed further pressure on the Council's finances and its medium financial plan includes the need for significant savings over the next few years. There is therefore a risk that the Council will not be able to achieve the forecast savings and continue to deliver a balanced budget over the medium term horizon.

We reviewed recent performance against the budget and considered the reasonableness of the assumptions upon which the Council's medium term financial planning has been based. We also reviewed the Council's plans to deliver savings over the period covered by the medium term financial plan.

Findings

Outturn for 2017/18

Despite the challenging funding settlement for local authorities nationally, the Council continued its good track record of delivery of services within budget and attainment of planned savings and income generation targets, delivering an outturn position for 2017/18 of a small deficit of £6k. The Council also reported a surplus of on the Housing Revenue Account (HRA) for the year, which has enabled the achievement of a £2.2m increase in HRA and earmarked HRA reserves. This is a healthy outturn position and demonstrates that the Council has applied appropriate budget management during 2017/18. The outturn position also reflects an improvement in performance from the forecast deficit for 2017/18 of £61k that was projected within the original 2017/18 budget

A major area of budget pressure in 2017/18 has been a £569k overspend due to increased costs of emergency accommodation for the homeless, which has been offset by savings elsewhere in the Council and in particular from its treasury management activities..

2018/19 budget and medium term financial sustainability

The Medium Term Financial Plan (MTFP) approved by the Council in February 2018 covers the four year period to 2021/22. The MTFP reflects an anticipated loss in Revenue Support Grant funding available to the Council of £1.3m by 2020/21 compared to 2017/18 levels, on top of significant funding reductions that the Council has already faced in recent years. The Council plans to offset these challenges through growth in the Council Tax base and rate, anticipated increases in business rates funding, additional revenues from commercial property regeneration initiatives and via savings realised through the externalisation of revenues and benefits and customer services to Civica.

The MTFP recognises that the Council faces pressures in maintaining a balanced budget for the Housing Revenue Account (HRA) as a result of the Government requirement to reduce rents by 1% per annum for the period 2016/17 to 2019/20, and also due to the impact of increased levels of Right to Buy sales in recent years. These have resulted in reductions in the Council's revenue at a time when the HRA is also facing general inflationary pressure on its expenditure. The Council has also forecast that it will continue to deliver a balanced budget for the HRA over the medium term despite these challenges and we are satisfied that these projections are based on reasonable assumptions.

While attaining budget savings to mitigate reductions in central government funding on the scale forecast within the MTFP will continue to be challenging, we note that the MTFP is based upon reasonable assumptions and that the Council has appropriate arrangements in place for identifying and implementing appropriate savings to allow this plan to be achieved. Savings plans have been developed as part of an incremental process throughout the year and have been subject to detailed member scrutiny and challenge. The Council also has the infrastructure in place to support these savings including regular budget monitoring and through investment in a "Delivering Effective Services" (DES) team to review services to identify efficiencies, savings and alternative delivery models. The Council has spent considerable effort seeking to mitigate the risks to the delivery of its medium term financial plans and, whilst the medium term outlook remains challenging, the Council has demonstrated a history of being able to meet these challenges and in delivering planned financial targets.

Value for Money conclusion

Significant risk

Budget position and medium term financial planning

Continuation of risk noted on page 9.

Findings

Reserves position

As at 31 March 2018, the Council had general fund reserves of £2.5m and earmarked general fund reserves of £25.9m, compared to £2.5m and £24.3m respectively as at 31 March 2017 and £3.0m and £24.1m as at 31 March 2016. This indicates that general fund reserves have remained at a consistent level over the last two years despite the budget pressures the Council has faced. The HRA and earmarked HRA reserves were £15.7m as at 31 March 2018, compared to £13.5m as at 31 March 2017 and £9.4m as at 31 March 2016.

The general fund reserves level as they currently stand provide the Council with a cushion to weather the financial challenges that it faces over the medium term. However, the Council only has finite reserves available and it is important that it continues to maintain appropriate budgetary control going forward.

Property Investment Strategy.

In November 2016, the Council launched a Property Investment Strategy, which approved investing up to £200m in commercial and residential property. Under this strategy, the Council has acquired a portfolio of property assets to generate an income stream and to increase economic regeneration across Dover. There are risks inherent in this strategy, for example the risk of the properties acquired becoming vacant, and this has been mitigated through the use of professional advisers to support the identification and evaluation of potential purchase opportunities.

During 2017/18, the Council invested £21.7m in the acquisition of new properties, including the purchase of Whitfield Court and the B&Q retail warehouse at the White Cliffs Business Park. The Council's investment property portfolio was valued at £24.0m as at 31 March 2018, compared to £2.6m as at 31 March 2017, and the portfolio generated £1.0m of rental income during the year. This has made a sizeable contribution to supporting the Council's revenue outturn position and supporting the services that it provides.

Overall, we have noted no concerns in relation to the Council's arrangements for supporting the property investment strategy. The Council has undertaken property investments in a reasonable and measured way, with an appropriate due process supporting the acquisition including a clear consider of the risks and appropriate signoff by the Cabinet on all key investment decisions.

Conclusion

The Council has delivered a balanced budget in 2017/18 and set a Medium Term Financial Plan that indicates that it will continue to deliver a balanced budget through to the end of 2021/22. The Council continues to face financial risk over the medium term, however it has clear plans in place to mitigate this risk.

We concluded that the risk that we identified in respect of funding pressures was sufficiently mitigated and that the Council has proper arrangements.

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	8 March 2018
Audit Findings Report	30 July 2018
Annual Audit Letter	30 August 2018

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	53,685	53,685	53,685
Housing Benefit Grant Certification	16,558	TBC	38,224
Total fees	70,243	TBC	86,961

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

Our housing benefit grant certification work is on-going and the final fee will be confirmed on completion of this work.

Fees for non-audit services

Service	Fees £
Audit related services	
- Certification of the pooling of housing capital receipts return	1,500
Non-Audit related services	
- None	Nil

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to its auditor.

B. Recommendations

We identified 2 recommendations for you as a result of issues identified during the course of our audit. We agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded were of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
<p>1</p> <p>●</p> <p>Low</p>	<ul style="list-style-type: none"> You have a process whereby journal postings to the general ledger are reviewed on a monthly basis to check that they are appropriate. However, no formal documentation is retained to evidence that these reviews have taken place. 	<ul style="list-style-type: none"> You should ensure that the process of review of journal postings on a monthly basis is formally documented. <p>Management response</p> <ul style="list-style-type: none"> We agree the recommended action and will implement this change for 2018/19.
<p>1</p> <p>●</p> <p>Low</p>	<ul style="list-style-type: none"> Under section 12 of the Audit and Accounts Regulations 2015, the Annual Governance Statement (AGS) should be published on your website from 1st June from 2017/18. While your draft AGS was published on your website on 24th May within the papers for your Cabinet meeting on 4th June, the AGS was not published on the 'Accounts and Budgets' page on your website on 6th July. Though you have complied with the legal requirement to publish on your website a draft or approved AGS by 1st June, we would advise that going forward you publish the draft AGS on the 'Accounts and Budgets' on your website by 1st June to make it easier for a local elector seeking to review the AGS to find it on your website. 	<ul style="list-style-type: none"> You should ensure in future periods that the draft Annual Governance Statement is published on the 'Accounts and Budgets' page on your website by 1st June, alongside the draft financial statements. <p>Management response</p> <ul style="list-style-type: none"> We agree the recommended action and will implement this change for 2018/19.

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice



© 2018 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

Subject:	TREASURY MANAGEMENT QUARTER ONE REPORT 2018/19
Meeting and Date:	Governance – 27 September 2018
Report of:	Mike Davis – Director of Finance, Housing & Community
Portfolio Holder:	Councillor Mike Connolly – Portfolio Holder for Corporate Resources and Performance
Classification:	Unrestricted

Purpose of the report: To provide details of the Council's treasury management for the quarter ended 30 June 2018 (Q1) and an update of activity to date.

Recommendation: That the report is received

1. Summary

- 1.1 The Council's investment return for the June quarter was 1.96%, which outperformed the benchmark¹ by 1.41%. Interest and dividends income achieved for the quarter was £240k; the year-to-date (YTD) budget is £250k. The Council's projected investment return for 2018/19 is £1,018k, which is £20k better than the original budget estimate of £999k. This improvement is due to the pooled investment funds doing better than expected.
- 1.2 As at 30 June the Council's investment portfolio totalled £38.4m (see Appendix 2). Cashflow funds were higher than expected at £9.5m; this is due to a £5m investment that matured and was not reinvested until 18 July with Close Brothers. The Cashflow increased further at the end of August to £15.3m due to an investment of £7.5m maturing in July. We are in the process of opening a CCLA Diversified Income fund in which this income will be invested by the end of September. The Gilts (£1.9m) matured in July and the money was used to increase the investment in the Investec Diversified Income fund by a further £2m.
- 1.3 The Council remained within its Treasury Management and Prudential Code guidelines during the period.

2. Introduction and Background

- 2.1 CIPFA (the Chartered Institute of Public Finance and Accountancy) issued the revised Code of Practice for Treasury Management in November 2011; it recommends that members should be updated on treasury management activities at least twice a year, but preferably quarterly. This report therefore ensures this council is implementing best practice in accordance with the Code.
- 2.2 Council adopted the 2018/19 Treasury Management Strategy (TMS) on 7th March 2018 as part of the 2018/19 Budget and Medium Term Financial Plan.

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.

- 2.3 In order to comply with the CIPFA code referred to above, a brief summary is provided below and Appendix 1 contains a full report from the Council's Treasury Management Advisors, Arlingclose.
- 2.4 Members are asked to note that in order to minimise the resource requirements in producing this report, Arlingclose's report has been taken verbatim. Treasury advisors generally use a more journalistic style than is used by our officers, but in order to avoid changing the meaning or sense of Arlingclose's work, this has not been edited out.
- 2.5 As at 30 June 2018, the Council's investment portfolio totalled £38.4m (see Appendix 2). However, some of this is shorter term, as significant funds sitting in the Dover Regeneration and Economic Development Reserve are earmarked for spending during 2018/19 and 2019/20 on the new Dover leisure centre, town hall refurbishment and other approved capital projects. After these approved commitments, there should be £20m - £25m underlying core funds available for longer term investment, while the remainder of funds will need to be kept in shorter term instruments and bank accounts for cash-flow requirements and future capital projects (subject to project appraisals).

3. **Annual investment strategy**

- 3.1 The investment portfolio, as at the end of June 2018, is attached at Appendix 2. Total balances held for investment and cash-flow purposes were £47.9m, rising to £48.3m at the end of August (see Appendix 4). The increase reflects normal cash-flow fluctuations arising from the timing of 'major preceptor' payments, which are made over twelve months, while the Council Tax receipts that fund them typically come in over the ten months to January and then decline. Additionally, there will be a further PWLB loan instalment to pay at the end of September 2018 of £2.35m.
- 3.2 Since the end of the June quarter, two fixed term deposits have matured totalling £10.5m. The Gilts (£1.9m) also reached their maturity. £5m has been deposited in a fixed term deposit with Close Brothers for 6 months at a rate of 0.80% and a further £2m has been deposited in the Investec Diversified Income fund.
- 3.3 All other funds are currently being held in money market funds. As a result, cash-flow funds increased from £3.1m at 31 March 2018 to £9.5m at 30 June 2018 (see Appendix 2), and then increased further to £15.3m by the end of August 2018 (see Appendix 4), although this will reduce due to approved capital spend in the coming weeks. Additionally, an investment is proposed in the CCLA Diversified Income fund, as per 1.2 above, and other options are subject to ongoing review within the scope of the treasury management strategy.

Economic background

- 3.4 The report attached (Appendix 1) contains information up to the end of June 2018; since then we have received an update from Arlingclose, included below. Please note that any of their references to quarters are based on *calendar* years:

Introduction

In line with our forecast and market expectations, the MPC voted to increase Bank Rate to 0.75% in August. There were, however, two surprises; the vote was unanimous and market expectations remained subdued despite this fact.

Our projected outlook for the UK economy means we maintain the significant downside risks to our interest rate forecast. The market's reaction to the rate hike suggests that investors expect both the relatively weak economic environment and political developments (Brexit negotiations and US trade relations) to limit the speed of rises in Bank Rate.

UK Data

The UK retail sector continues to take a battering as high street bellwether John Lewis reported a 99% drop in profits to £1.2m for the first half of 2018. Cutting margins to make good on their competitor price-matching promise was reported as one of the reasons, exacerbated by the greater number of discounting 'extravaganza days' offered by rivals.

There was some positive news on UK economic growth as the new monthly GDP estimate for July pointed to a 0.3% gain, pushing up the rolling three-month GDP figure to 0.6% from 0.4% in June and beating the consensus of 0.5%. Growth was driven by the services sector where output was up 0.3%. Construction, which has seen periods of weakness this year, was also a positive contributor. The recent hot weather caused utilities sector output to drag on growth.

There was also some good news from the labour market as annual regular earnings jumped from 2.8% to 3.1% in July, the fastest rate of growth for three years. This pushed the headline (3m y/y) excluding bonuses figure to 2.9% from 2.7%, reversing the recent declines. Employment growth softened slightly, rising 3,000 against the consensus expectation of 28,000, dragging the annual growth rate down to 0.8% from 1.0%. Within the detail, the number of full-time workers increased by 100,000 in the three months to July while part-time workers fell by 98,000. The unemployment rate held steady at 4.0%.

The Bank of England maintained Bank Rate at 0.75% (having raised it in August) while also maintaining the government and corporate bond asset purchases at existing levels.

Sticking with banks, albeit retail rather than central, and Royal Bank of Scotland's chairman admitted the government is unlikely to get back all of the £45.5bn it used to prop up the institution during the financial crisis. Over the 10 years since it was bailed out, RBS has lost over £130bn and incurred restructuring costs of £15bn, with the focus on the bank's survival serving to materially reduce its market value, taking it from the largest bank in the world to 29th largest.

US Data

Over in the US, producer prices came in weaker than expected in August at -0.1% versus +0.2% for the final demand reading, with the annual growth rate at 2.8% against 3.2% expected. This represented the first decline in well over a year as falls in the prices of food and trade services offset a rise in the cost of energy products. Consumer prices also rose by less than expected in August as gains in petrol prices and rents were dampened by declines in health care and clothing costs. On a monthly basis CPI was up 0.2%, the same rate as the previous month. The annual growth rate stood at 2.7%, down from 2.9% in July, while core inflation rose by 0.1% m/m. Despite the moderation, inflationary pressures continue to rise steadily as the labour market and economy continue to perform well, suggesting there is nothing in these reports that will halt the Fed from continuing to push up US interest rates.

Europe

Unlike Turkey's central bank which hiked rates by 6.25% to 24% today, the European Central Bank followed the Bank of England by maintaining the status quo. The main refinancing rate was kept at 0% and deposit rate at -0.4%. In subtle changes to the bank's guidance, the ECB announced plans to end bond purchases at the end of the year and maintain interest rates at their record low levels until at least through to the middle of 2019. It also confirmed it will cut bond purchases to €15bn per month from next month.

Interest rate forecast

The MPC continues to have a bias towards tighter monetary policy, talking up possible inflationary developments despite seeing little evidence in current data. We believe that MPC members consider both that: 1) ultra-low interest rates result in other economic problems, and 2) higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise and cuts become required.

*However, the MPC, and in particular Mark Carney, is reluctant to push interest rate expectations too strongly to avoid a sharper rise in yields. The Bank implied, using its new R*measure, that the long term neutral level of Bank Rate will be between 2% and 3%.*

The UK economic environment is relatively soft, despite seemingly strong labour market data. GDP growth recovered somewhat in Q2 2018, but the quarterly annualised expansion of 1.6% remains below the long term average. As noted previously, the Bank believes that's lower economic growth of around 1.5% will be inflationary.

Our view is that the UK economy still faces a challenging outlook as the country exits the European Union. Central bank actions and geopolitical risks, such as prospective trade wars, have and will continue to produce significant volatility in financial markets, including bond markets.

The MPC has maintained expectations of a slow rise in interest rates over the forecast horizon. Our central case is for Bank Rate to rise twice in 2019. The risks are weighted to the downside.

Gilt yields have remained at low levels. We expect some upward movement from current levels based on our interest rate projections and the strength of the US economy, but volatility arising from both economic and political events will continue to offer borrowing opportunities.

4. Net Borrowing

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

5. Debt Rescheduling

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

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

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

7. **Appendices**

Appendix 1 – Arlingclose Treasury Management Report for Quarter One

Appendix 2 – Investment portfolio as at 30 June 2018

Appendix 3 – Borrowing portfolio as at 30 June 2018

Appendix 4 – Investment portfolio as at 31 August 2018

8. **Background Papers**

Medium Term Financial Plan 2018/19 – 2021/22

Contact Officer: Stuart Groom, extension 42072

Date: 18th September 2018

Treasury Management Report Q1 2018/19

Introduction

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

The Authority's treasury management strategy for 2018/19 was approved at a meeting of the Authority on 7 March 2018. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

Following consultation in 2017, CIPFA published new versions of the Prudential Code for Capital Finance in Local Authorities (Prudential Code) and the Treasury Management Code of Practice but has yet to publish the local authority specific Guidance Notes to the latter. In England MHCLG published its revised Investment Guidance which came into effect from April 2018.

The updated Prudential Code includes a new requirement for local authorities to provide a Capital Strategy, which is to be a summary document approved by full council covering capital expenditure and financing, treasury management and non-treasury investments. The Authority will be producing its Capital Strategy later in 2018-19 for approval by full Council.

External Context

Economic background: Commodity prices fell during the quarter, although oil prices rose, peaking at \$75 a barrel before falling slightly to just over \$73. The primary factor in the oil price's recent fall was the OPEC's (Organisation of Petroleum Exporting Countries) announcement that a deal had been reached with non-OPEC nations to increase nominal production by 1 million barrels a day.

UK Consumer Price Inflation (CPI) index fell over the quarter and the data released for May showed CPI at 2.4%, a 12-month low. The most recent labour market data for April 2018 showed the unemployment rate at 4.2%, a low last seen in 1975. However real wages (i.e. adjusted for inflation) grew only by 0.4%, a marginal increase unlikely to have had much effect for households. Q1 GDP data released in April and revised in May showed economic activity slowing to 0.2%. The Bank of England made no change to monetary policy at its meetings in May and June, however hawkish minutes and a 6-3 vote to maintain rates have raised expectations of a rate hike at the August meeting.

Having raised rates in March, the US Federal Reserve again increased its target range of official interest rates in June by 0.25% to between 1.75% and 2% and markets now expect two further rises in 2018.

Fears rose of a global trade war on the announcement of the Trump Administration implementing tariffs on \$200bn of imports, notably steel, aluminium, food and chemicals. Canada, the EU and China contemplated announced retaliatory tariffs as did Mexico. Many of these have since been instituted in early July. The announcements sparked a sell-off in global equity markets, with the

major equity global indices falling.

The EU Withdrawal Bill, which repeals the European Communities Act 1972 that took the UK into the EU and enables EU law to be transferred into UK law, narrowly made it through Parliament, with a vote of 319 to 303, after the government gave assurances that Parliament would have a meaningful vote in the event of a no-deal Brexit. Very little progress was made in negotiating future trading arrangements, extending the period of uncertainty.

Financial markets: Gilt yields displayed marked volatility during the quarter, particularly following Italy's political crisis in late May when government bond yields saw sharp moves akin to those at the height of the European financial crisis with falls in yield in safe-haven UK, German and US government bonds. The yield on the 5-year benchmark gilt fell from 1.13% to 1.04% during the quarter, the 10-year gilt fell from 1.36% to 1.28% and the yield on the 20-year gilt rose marginally from 1.71% to 1.72%. Money markets rates remained low: 1-month, 3-month and 12-month LIBID rates averaged 0.38%, 0.55% and 0.84% in the quarter respectively.

Credit background: UK bank credit default swaps rose marginally over the quarter, but the overall level was still low against historic averages.

There were a few credit rating changes during the quarter. Moody's downgraded Barclays Bank Plc's long-term rating to A2 from A1 after the banking group completed its restructure to be compliant with UK bank ring-fencing requirements which come into effect in 2019. The agency also downgraded Royal Bank of Scotland plc's (RBS plc) long-term ratings to Baa2 from A3 on its view that the credit metrics of RBS plc, which will become the non-ring-fenced NatWest Markets plc, will become weaker and less diversified and the main functions of the bank would be in higher risk activities. Moody's and Fitch upgraded the long-term ratings of NatWest Bank and Ulster Bank on the view that their credit profiles are expected to improve following ring-fencing.

Local Context

On 31st March 2018, the Authority had net borrowing of £39m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.18 Actual £000
General Fund CFR	42,923
HRA CFR	74,134
Total CFR	117,057
Less: Usable reserves	(66,899)
Less: Working capital	(11,034)
Net borrowing	39,124

The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

The treasury management position at 30th June 2018 and the change in the quarter is show in Table 2 below.

Table 2: Treasury Management Summary

	31.3.18 Balance £000	Q1 2018 Movement £000	30.6.18 Balance £000	30.6.18 Rate %
Long-term borrowing	83,292		83,292	
Short-term borrowing	2,223		2,223	
Total borrowing	85,515	0	85,515	3.40%
Long-term investments	25,564	436	26,000	
Short-term investments	17,410	(5,000)	12,410	
Cash and cash equivalents	3,417	6,126	9,543	
Total investments	46,391	1,562	47,953	1.24%
Net borrowing	(39,124)		(37,562)	

Borrowing Strategy during the quarter

At 30th June 2018 the Authority held £85.5m of loans, a similar position to 31st March 2018, as part of its strategy for funding previous years' capital programmes. The quarter-end borrowing position is show in Table 3 below.

Table 3: Borrowing Position

	31.3.18 Balance £m	Q1 Movement £m	30.6.18 Balance £m	30.6.18 Weighted Average Rate %
Public Works Loan Board	82,515	0	82,515	3.35
Banks (LOBO)	3,000	0	3,000	4.75
Total borrowing	85,515		85,515	

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

In keeping with these objectives, no new borrowing was undertaken. This strategy enabled the Authority to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

With short-term interest rates remaining much lower than long-term rates, the Authority considered it to be more cost effective in the near term to use internal resources or borrowed rolling temporary / short-term loans instead.

As the Authority has an increasing CFR due to the capital programme and an estimated borrowing requirement as determined by the Liability Benchmark which also takes into account usable reserves and working capital.

LOBO loans: The Authority continues to hold £3m of LOBO (Lender’s Option Borrower’s Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during quarter 1.

Treasury Investment Activity

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the quarter, the Authority’s investment balance ranged between £45.8 and £47.9 million due to timing differences between income and expenditure. The investment position during the quarter is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.18 Balance £000	Q1 2018 Movement £000	30.6.18 Balance £000	30.6.18 Rate of Return %
Banks & building societies (unsecured)	383	(286)	97	0.08
Government (incl. local authorities)	17,410	(5,000)	12,410	0.94
Money Market Funds	3,034	6,412	9,446	0.50
Other Pooled Funds :				
- <i>Short-dated bond funds</i>	8,000	0	8,000	0.85
- <i>Strategic bond funds</i>	5,900	100	6,000	4.42
- <i>Property funds</i>	5,744	256	6,000	4.58
- <i>Multi asset income funds</i>	5,921	79	6,000	4.57
Total investments	46,391	1,562	47,953	

The balance of the other pooled funds at 31.3.18 includes accounting adjustments of £435k for unrealised losses, which were included at year-end for statutory reporting purposes (and separately reversed out through a non-useable reserve, as permitted). These have been excluded from the balance at 30.6.18, as the pooled funds are longer term investments and no loss is expected by the time of sale. Therefore the Q1 movement on other pooled funds represents the removal of the unrealised losses to restate the funds at book value, and not any increased investment in the respective funds.

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

In furtherance of these objectives, and given the increasing risk and falling returns from short-term unsecured bank investments, the Authority has diversified into more secure and higher yielding asset classes. The progression of risk and return metrics are shown in the extracts from Arlingclose’s quarterly investment benchmarking in Table 5 below.

Table 5: Investment Benchmarking - Treasury investments managed in-house

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
31.03.2018	3.63	AA-	15%	34	-0.23
30.06.2018	4.03	AA-	43%	18	0.78
Similar LAs	4.37	AA-	61%	98	1.51
All LAs	4.46	AA-	62%	42	1.28

*Weighted average maturity

The Authority's £26m of externally managed pooled investment funds generated an average total return of 1.14%, comprising a 3.89% income return which is used to support services in year, offset by 2.75% of capital loss (which is unrealised and does not affect the Council's budget at this time). Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives is regularly reviewed. In light of their performance and the Authority's latest cash flow forecasts, investment in these funds has been maintained.

Other Investment Activity

The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially to generate a profit.

On 30 November 2016 Council approved the Property Investment Strategy. This approved investing up to £200m in commercial and residential property, either directly or through a property company, primarily in order to increase economic regeneration and also to generate returns.

In September 2017 the purchase of the freehold of the B&Q retail warehouse at White Cliffs Business Park, Dover was completed as the first acquisition under this initiative. After allowing for annual costs including borrowing (based on PWLB over 40 years) and management the resulting retained income is forecast to be £268k per annum, a net return of 1.6%.

In December 2017 a second site, Whitfield Court, was purchased. The site is located in the White Cliffs Business Park and the Council want to ensure the long term stability of the area. The site is a multi-let business park comprising 14 office and light industrial units totalling 45,636 sq. ft. After allowing for annual costs including borrowing (based on PWLB over 40 years) and management the resulting retained income is forecast to be £120k per annum, a net return of 2.65%.

Treasury Performance

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

Table 6: Performance

	Actual £000	Budget £000	Over/ under	Actual %	Benchmark %	Over/ under
Interest received	1,013	999	14	1.96	0.55	1.41
Interest payable	2,884	2,884	0	3.40	3.40	0

Compliance

The Director of Finance is pleased to report that all treasury management activities undertaken during quarter 1 complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 7 below.

Table 7: Investment Limits

	30.6.18 Actual	2018/19 Limit	Complied?
Any single organisation, except the UK Government	£10.5m	£8m per bank	✓
Any group of pooled funds under the same management	0	£16m per group	✓
Negotiable instruments held in a broker's nominee account	0	£15m	✓
UK Government	£1.9m	Unlimited	✓
Unsecured investments with building societies	0	£8m	✓
Pooled Investment Funds	£26m	£10m per fund	✓
Operating bank	0.05m	£20m	✓
Money Market Funds	£9.4m	£10m per fund	✓

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

Table 8: Debt Limits

	Q1 Maximum £m	30.6.18 Actual £m	2018/19 Operational Boundary £m	2018/19 Authorised Limit £m	Complied?
Borrowing	85.5	85.5	333	338.5	✓

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

Treasury Management Indicators

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

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

	30.6.18 Actual	2018/19 Target	Complied?
Portfolio average credit score	3.58	6.0	✓

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

	30.6.18 Actual	2018/19 Target	Complied?
Total cash available within 3 months	£9.5m	£8m	✓

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

	30.6.18 Actual	2018/19 Limit	Complied?
Upper limit on fixed interest rate exposure	£85.5m	£300m	✓
Upper limit on variable interest rate exposure	0	£90m	✓

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

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

	30.6.18 Actual	Upper Limit	Lower Limit	Complied?
Under 12 months	£2.2m	25%	0%	✓
12 months and within 24 months	£3.5m	50%	0%	✓
24 months and within 5 years	£7.5m	50%	0%	✓
5 years and within 10 years	£15m	100%	0%	✓
10 years and above	£57.3m	100%	0%	✓

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

Principal Sums Invested for Periods Longer than 365 days: The purpose of this indicator is to control the Authority’s exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2018/19	2019/20	2019/21
Actual principal invested beyond year end	0	0	0
Limit on principal invested beyond year end	£30m	£30m	£30m
Complied?	✓	✓	✓

Outlook for the remainder of 2018/19

The MPC has maintained expectations of a rise in interest rates this year. Arlingclose’s central case is for Bank Rate is to rise once in 2018 and twice more in 2019. The MPC has a definite bias towards tighter monetary policy. While policymakers are wary of domestic inflationary pressures over the next two years, it is believed that the MPC members consider both that: 1) ultra-low interest rates result in other economic problems, and that 2) higher Bank Rate will be a more effective weapon should downside Brexit risks crystallise.

	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
Downside risk	0.00	0.25	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75

Arlingclose’s view is that the UK economy still faces a challenging outlook as the minority government continues to negotiate the country’s exit from the European Union. Central bank actions and geopolitical risks, such as prospective trade wars, have and will continue to produce significant volatility in financial markets, including bond markets.

In-house as at 30/06/18

APPENDIX 2

Organisation	Type of investment	Current rating	Issue Date	Maturity date	Market yield %	Book cost	Government Sovereign Debt rating	Options available
Held in Custody at Kings and Shaxon								
United Kingdom	Gilt		24/05/2013	22/07/2018	1.25%	950,000		
United Kingdom	Gilt		11/06/2013	22/07/2018	1.25%	960,000		
						1,910,000		

In-house Investments - Portfolio:

							<i>Duration</i>	
Birmingham City Council	Fixed term deposit		27/04/2018	27/07/2018	0.700	7,500,000	UK - Gov 'AA'	364 days
Mid Suffolk District Council	Fixed term deposit		15/03/2018	15/05/2018	0.820	3,000,000	UK - Gov 'AA'	61 days

In-house investments - Long Term

CCLA Property investment Fund			30/06/2017		4.36%	3,000,000	UK - Gov 'AA'	5 Years +
CCLA Property investment Fund			31/07/2017		4.37%	3,000,000	UK - Gov 'AA'	5 Years +
Investec Multi Asset Fund			15/12/2017		4.57%	6,000,000	UK - Gov 'AA'	5 Years +
Columbia Threadneedle Strategic Bond Fund			15/12/2017		4.42%	6,000,000	UK - Gov 'AA'	5 Years +
Payden and Rygel			28/02/2018		0.85%	8,000,000	UK - Gov 'AA'	2 Years +

36,500,000

Total Portfolio

38,410,000

Cashflow:

Call Accounts/MMF (as at 30/6/18)

		Rate
Global Treasury Fund (Goldman Sachs Money Market Fund)	3,497,106	0.47%
Standard Life Investments (Money Market Fund)	5,949,000	0.52%
Natwest SIBA	57,318	0.15%
Natwest SIBA - SEEDA (DTIZ)	0	0.01%
Natwest SIBA - EP (HCA)	0	0.01%
Natwest SIBA - ASDA	0	0.01%
Santander	502	0.05%
Bank of Scotland	5,011	0.40%
HSBC Business Acc	0	0.00%
Barclays	34,150	0.00%

Total Cash flow

9,543,086

Total Portfolio and Cashflow

47,953,086

Interest Type	Date Loan Taken Out	Date Loan Matures	Repayment Dates	Loan Number	Principal Balance 01-Apr-18	Interest Rate %	Principal To Be Repaid 2018/19	Principal Balance 31-Mar-19	Annual Interest 2018/19	Lender	Type of loan
Fixed	02/10/1997	02/10/2057	APR-OCT	479961	1,000,000	6.75		1,000,000	67,500	PWLB	Principal due on Maturity
Fixed	28/05/1997	28/05/2057	MAY-NOV	479542	2,000,000	7.38		2,000,000	147,500	PWLB	Principal due on Maturity
Fixed	23/08/1946	23/06/2026	JUNE-DEC	131582	379	2.50	45	379	9	PWLB	Equal Instalment of Principal (EIP)
Fixed	27/09/1946	27/06/2026	JUNE-DEC	131583	71	2.50	8	71	2	PWLB	Equal Instalment of Principal (EIP)
Fixed	16/11/2001	30/09/2026	SEPT-MAR	486237	1,000,000	4.75		1,000,000	47,500	PWLB	Principal due on Maturity
Variable	16/12/2002	16/12/2042	JUNE-DEC	N/A	3,000,000	4.75		3,000,000	142,500	KA Finanz AG Bank	Repayable if called by Bank
Fixed	26/03/2012	26/03/2042	SEPT-MAR	499853	78,514,340	3.18	2,222,582	76,291,758	2,479,225	PWLB	Annuity
					85,514,790		2,222,635	83,292,208	2,884,237		<i>Sub-total</i>
Fixed	01/05/2012	01/11/2027	MAY-NOV		78,386	0.00	8,710	69,676	0	Lawn Tennis Association	Interest free
					85,593,176		2,231,344	83,361,884	2,884,237		

In-house as at 31/08/18

APPENDIX 4

Organisation	Type of investment	Current rating	Issue Date	Maturity date	Market yield %	Book cost	Government	Options available
--------------	--------------------	----------------	------------	---------------	----------------	-----------	------------	-------------------

In-house Investments - Portfolio:

Duration

Close Brothers	Fixed term deposit		18/07/2018	18/01/2019	0.800	5,000,000	UK - Gov 'AA'	184 days
----------------	--------------------	--	------------	------------	-------	-----------	---------------	----------

In-house investments - Long Term

CCLA Property investment Fund			30/06/2017		4.360	3,000,000	UK - Gov 'AA'	5 Years +
CCLA Property investment Fund			31/07/2017		4.370	3,000,000	UK - Gov 'AA'	5 Years +
Investec Multi Asset Fund			15/12/2017		4.570	6,000,000	UK - Gov 'AA'	5 Years +
Columbia Threadneedle Strategic Bond Fund			15/12/2017		4.420	6,000,000	UK - Gov 'AA'	5 Years +
Payden and Rygel			28/02/2018		0.850	8,000,000	UK - Gov 'AA'	2 Years +
Investec Multi Asset Fund			01/08/2018		4.570	2,000,000	UK - Gov 'AA'	5 Years +

33,000,000

Total Portfolio

33,000,000

Cashflow:

Call Accounts/MMF (as at 31/8/18)

Rate

Global Treasury Fund (Goldman Sachs Money Market Fund)	5,112,106	0.61%
Standard Life Investments (Money Market Fund)	9,549,000	0.63%
Natwest SIBA	635,318	0.15%
Santander	502	0.05%
Bank of Scotland (BOS)	5,011	0.40%
HSBC Business Acc	0	0.00%
Barclays	34,150	0.00%

Total Cash flow

15,336,086

Total Portfolio and Cashflow

48,336,086

DOVER DISTRICT COUNCIL

GOVERNANCE COMMITTEE – 27 SEPTEMBER 2018

EXCLUSION OF THE PRESS AND PUBLIC

Recommendation

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(s) to be considered involve the likely disclosure of exempt information as defined in the paragraph of Part 1 Schedule 12A of the 1972 Act set out below:

<u>Item</u>	<u>Report Title</u>	<u>Paragraphs Exempt</u>	<u>Reason Exempt</u>
8	Quarterly Internal Audit Update Report	1	Information relating to any individual

By virtue of paragraph(s) 1 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted