NOTICE OF MEETING

CORPORATE COMMITTEE

Tuesday, 21st March, 2017, 7.00 pm - Civic Centre, High Road, Wood Green, N22 8LE

Members: Councillors Barbara Blake (Chair), Eddie Griffith (Vice-Chair), Gina Adamou, Charles Adje, Patrick Berryman, Isidoros Diakides, Joseph Ejiofor, Gail Engert, Stephen Mann, Sheila Peacock, Reg Rice and Viv Ross

Quorum: 3

1. FILMING AT MEETINGS

Please note this meeting may be filmed or recorded by the Council for live or subsequent broadcast via the Council's internet site or by anyone attending the meeting using any communication method. Although we ask members of the public recording, filming or reporting on the meeting not to include the public seating areas, members of the public attending the meeting should be aware that we cannot guarantee that they will not be filmed or recorded by others attending the meeting. Members of the public participating in the meeting (e.g. making deputations, asking questions, making oral protests) should be aware that they are likely to be filmed, recorded or reported on. By entering the meeting room and using the public seating area, you are consenting to being filmed and to the possible use of those images and sound recordings.

The Chair of the meeting has the discretion to terminate or suspend filming or recording, if in his or her opinion continuation of the filming, recording or reporting would disrupt or prejudice the proceedings, infringe the rights of any individual, or may lead to the breach of a legal obligation by the Council.

2. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS (IF ANY)

3. URGENT BUSINESS

The Chair will consider the admission of any late items of urgent business. (Late items will be considered under the agenda items where they appear. New items will be dealt with at item 15).

4. DECLARATIONS OF INTEREST

A member with a disclosable pecuniary interest or a prejudicial interest in a matter who attends a meeting of the authority at which the matter is considered:

(i) must disclose the interest at the start of the meeting or when the interest becomes apparent, and
(ii) may not participate in any discussion or vote on the matter and must withdraw from the meeting room.

A member who discloses at a meeting a disclosable pecuniary interest which is not registered in the Register of Members' Interests or the subject of a pending notification must notify the Monitoring Officer of the interest within 28 days of the disclosure.

Disclosable pecuniary interests, personal interests and prejudicial interests are defined at Paragraphs 5-7 and Appendix A of the Members' Code of Conduct.

5. DEPUTATIONS / PETITIONS / PRESENTATIONS / QUESTIONS

To consider any requests received in accordance with Part 4, section B, Paragraph 29 of the Council's Constitution.

6. MINUTES (PAGES 1 - 10)

To consider and agree the minutes of the meeting held on 31 January 2017.

7. TREASURY MANAGEMENT UPDATE - Q3 (PAGES 11 - 26)

Report of the Chief Operating Officer to update the Committee on the Council's treasury management activities and performance in the nine months to 31st December 2016 in accordance with the CIPFA Treasury Management Code of Practice.

8. HARINGEY COUNCIL SMOKING POLICY (PAGES 27 - 38)

Report of the Director of Public Health seeking agreement from the Committee to proposed changes to the Council's revised Smoking Policy.

9. INTERNAL AUDIT PLAN AND INTERNAL AUDIT STRATEGY (PAGES 39 - 48)

Report of the Assistant Director, Corporate Governance for the Committee to review and approve the draft internal audit plan for 2017/18, together with the internal audit strategy.

10. PROCUREMENT - UPDATE ON RECOMMENDATIONS IN AUDIT WAIVER REPORT

Presentation.

11. HOUSING BENEFIT SUBSIDY: 2015-16 GRANT CLAIM - REPORT ON ACTIONS TAKEN FOLLOWING EXTERNAL AUDIT OF SUBSIDY CLAIM (PAGES 49 - 56)

Report of the Chief Operating Officer to update the Committee on the action plan being implemented by Officers to address the errors; the steps being taken to address the backlog of work and ensure adequate resources are available to address issues identified by external auditors.

12. AUDIT PLAN (PAGES 57 - 80)

Report of the External Auditors.

13. AUDIT PROGRESS REPORT (PAGES 81 - 86)

Report of the External Auditor.

14. DELEGATED DECISIONS, SIGNIFICANT ACTIONS AND URGENT ACTIONS (PAGES 87 - 130)

Report of the Assistant Director of Corporate Governance to inform the Committee of Non-Executive delegated decisions and significant actions taken by Directors, and any urgent actions taken by Directors in consultation with the Chair of the Corporate Committee since the previous meeting.

15. ANY OTHER BUSINESS OF AN URGENT NATURE

To consider any items admitted at item 2 above.

16. DATE AND TIME OF NEXT MEETING

25 July 2017 *(calendar to be confirmed at Full Council on 20 March)*

Helen Chapman, Principal Committee Co-ordinator
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Bernie Ryan
Assistant Director – Corporate Governance and Monitoring Officer
River Park House, 225 High Road, Wood Green, N22 8HQ

Monday, 13 March 2017

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MINUTES OF THE MEETING OF THE CORPORATE COMMITTEE HELD ON TUESDAY, 31ST JANUARY, 2017

PRESENT:

Councillors: Barbara Blake (Chair), Charles Adje, Isidoros Diakides, Stephen Mann, Sheila Peacock, Reg Rice, Viv Ross, Gail Engert and Gina Adamou

113. FILMING AT MEETINGS

The Chair referred Members present to agenda item 1 in respect of filming at this meeting and Members noted the information contained therein.

114. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS (IF ANY)

Apologies for absence were received from Cllr Ejiofor and Cllr Griffith.

115. URGENT BUSINESS

There were no items of urgent business.

116. DECLARATIONS OF INTEREST

There were no declarations of interest.

117. DEPUTATIONS / PETITIONS / PRESENTATIONS / QUESTIONS

There were no such items.

118. MINUTES

The Committee noted that the attendance for the previous meeting needed to be amended to reflect Cllr Engert's attendance and that apologies for absence had been received from Cllr Rice. With these amendments it was:

RESOLVED

That the minutes of the meeting of the Corporate Committee held on 29 November 2016 be approved as a correct record and signed by the Chair.

119. TREASURY MANAGEMENT STRATEGY STATEMENT

The Committee considered the report on the Treasury Management Strategy Statement (TMSS) 2017/18, introduced by Oladapo Shonola, Head of Finance, Treasury and Pensions. It was noted that the strategy covered borrowing to cover capital expenditure, investment principles and the prudential indicators. The Council's strategy complied with guidance from the CLG, the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice. It was noted that there was broadly no change to the previous TMSS as economic conditions remained much the same as they had been, and the Committee was advised that the only proposed change to the TMSS was in relation to the Minimum Revenue Provision, which had been revised in order to better reflect the rules set out in the prudential code and government guidance and which would have a positive impact on the Council's finances.

The Committee asked about the borrowing expected for the coming year, what this was for, the length of term and whether such borrowing was prudent in the current financial climate. The Head of Finance - Treasury and Pensions, advised that the Council's Capital Programme, approved by Cabinet, established the borrowing required and that some borrowing may also be required for the refinancing of maturing debt. It was noted that all borrowing was provided for in the Council's revenue budget, and was therefore considered prudent; in particular, the refinancing of any maturing debt would be at a much lower interest rate than the existing loans and would therefore be positive for the Council. With regards to the term of any proposed borrowing, it was confirmed that the maturity rate would be spread in line with the indicators set out in the strategy, in order to minimise risk to the Council.

The Committee noted the section on bail-in legislation within the TMSS, which meant that depositors would carry the risk of any bank failure, and asked whether a risk assessment was undertaken to ensure that the Council was able to deal with the implications of any such event; it was confirmed that this was taken into consideration in the formulation of the limits that the Council set for itself within the TMSS. The Committee asked about the implications of Brexit on the Council's Treasury Management strategy, in particular where current guidance was based on EU legislation. The Head of Finance – Treasury and Pensions, advised that it was not anticipated that Brexit would have a material impact on the areas of activity covered in the TMSS, and that a briefing would be provided for Members on the potential implications for the Council's Treasury Management arrangements arising from the decision to leave the EU.

Action: Head of Finance - Treasury and Pensions

The Committee asked whether loans taken out by the Council were secured against Council property. The Head of Finance – Treasury and Pensions advised that this was not the case, and it was agreed that this would be confirmed outside the meeting and a briefing circulated to Members.

Action: Head of Finance - Treasury and Pensions

The Committee was pleased to note that there had been no breach of the Council's prudential indicators in the previous year, but expressed concern at the significant difference in the approved reserves/revenue contributions and projected out-turn for 2016/17, as set out in Table 4 of the TMSS relating to capital financing and asked for an explanation of the discrepancy. While it was noted that this was outside the scope of the TMSS report, it was agreed that Members would be provided with a briefing on this, covering how the difference arose and any implications for the Council. It was noted that this would also form part of the forthcoming Budget reports to Cabinet and Full Council in February.

Action: Deputy s151 Officer, Head of Finance - Treasury and Pensions

The Committee asked for an update on the position with the Council's Lender's Option Borrower's Option (LOBO) loans and it was agreed that an update on this would be provided. It was noted that the position remained largely unchanged; the Council's external auditor had been asked to review the process by which these loans had been taken out back in 2007-8 and had come to the conclusion that this was a reasonable decision to have been taken at that time. It was noted that a legal ruling was awaited in respect of whether there had been a technical breach of the Council's treasury management limits at the time when the loans were taken out, which related to whether these loans should have been classified as variable or fixed borrowing, and that it was not possible for the auditors to finally sign off their opinion until a decision was made on this point. It was not felt, however, that this would make a difference as to whether the decision had been a reasonable one.

Action: Head of Finance - Treasury and Pensions

The Committee discussed paragraph 4.9 of the TMSS in respect of LOBOs, and whether the wording of the final sentence should be amended to read "No further LOBO loans will be considered", removing the option of any further such loans being taken into after discussion with the Corporate Committee. The Head of Finance – Treasury and Pensions advised against removing the option of considering such products altogether, as there was the chance the Council could miss out on a favourable borrowing option in future, but suggested that the wording could be amended such that the approval of the Committee was required in order to undertake any such borrowing. The Committee discussed the proposal to amend the wording of this section at this stage, and agreed that this was an issue that the Committee would discuss in greater detail later on during the year.

RESOLVED

i) That the Committee recommend the Treasury Management Strategy Statement for 2017/18 to Full Council for approval.

ii) That briefings for Members be provided in respect of: the potential implications for the Council's Treasury Management arrangements arising from the decision to leave the EU, whether Council loans were secured against property, an explanation of the discrepancy between the approved reserves/revenue contributions and projected out-turn for 2016/17 and the implications of this, and an update on the Council's LOBO loans.

Cllr Wright, Chair of the Overview and Scrutiny Committee, gave an update to the Committee on the views of the Overview and Scrutiny Committee in respect of the TMSS, which they had considered the previous day. The Committee noted that as a result of the discussion of the Overview and Scrutiny Committee, the following actions were being taken forward:

i) A meeting was to take place between the Chairs of the Corporate and Overview and Scrutiny Committees in order to manage the arrangements for the monitoring of the Council's treasury management activity and avoid duplication of effort;

ii) Corporate Committee had been asked by the Overview and Scrutiny Committee to keep the LOBO position under review and to take action where appropriate to reduce any risk to the Council;

iii) Corporate Committee had been asked by the Overview and Scrutiny Committee to maintain a focus on monitoring the risks associated with Council borrowing, particularly borrowing undertaken on a joint basis, as it was felt that there was likely to be an increase in joint ventures in the coming years and it was important for the Committee to have sufficient oversight of the controls in place to manage this.

The Committee noted the points made by the Overview and Scrutiny Committee and felt that it would have been useful for the Committee to have received these in writing in advance of their own discussion of the TMSS. It was noted that the Chair of the Overview and Scrutiny Committee had attended to present the Committee's comments in person due to the meeting having taken place the previous day, but the Committee's concerns regarding the comments not having been available at an earlier juncture were acknowledged and it was confirmed that this would be taken into account when planning the process for future years.

120. INTERNAL AUDIT UPDATE - QUARTER 3

The Committee considered the Internal Audit Progress Report 2016-7, Quarter 3, as presented by Anne Woods, Head of Audit and Risk Management.

Further to the Quarter 2 update presented at the previous meeting and the audit recommendations made in respect of the audit of the Procurement of Contracts under the OJEU Threshold, follow up work on the original two recommendations had been undertaken and the Committee was advised that the first recommendation that Central Procurement should periodically review spend reports per supplier was now in progress. The second recommendation regarding the recording of contracts and the introduction of a central online procurement portal had yet to be implemented, but it was reported that this was due to a delay in the implementation of a new e-procurement system for technical reasons and it was anticipated that the new system would be in place by the end of March 2017. It was confirmed that further work would be undertaken in 2017/18, when more information was available and the new system was in place, to ensure that these recommendations were fully implemented.

With regard to the school audits and the high number of schools receiving 'limited' assurance, it was reported that the selection of schools being audited during the period did include a number where concerns had been raised by previous audits and there did not appear to have been an improvement in performance. The Head of Audit and Risk Management had met with the Director of Children's Services and AD Schools and Learning, and work was taking place to establish next steps for improving performance across these schools. The Committee and Chair had expressed particular concern regarding the 'Nil' assurance arising from the audit of Stamford Hill school during Quarter 2; a follow up audit had been undertaken in December 2016 and the draft audit report was currently with the school for review. Of the 29 recommendations from the audit, 5 had been found to be fully implemented, 10 were partly implemented, 12 were not implemented and the deadlines for the others had not yet been reached. The AD Schools and Learning and Schools Improvement Team were working to support the school and manage the process of implementing the audit recommendations. As an interim measure, funding had been granted to the school to enable it to meet its statutory responsibilities, subject to a detailed budget and repayment plan being submitted by the school. Further decisions on next steps to be taken at the school would be made after meetings had been held between the school and Council officers.

The Committee noted that in the current economic climate it was to be anticipated that more schools may be encountering financial difficulties, and felt that the Council should be doing more to lobby Government regarding school funding. The Head of Audit and Risk Management noted that at the recent Children and Young People’s Scrutiny Panel there had been a general correlation between those schools with deficit funding and those achieving limited audit assurance ratings, suggesting that focussing on fundamental financial controls should help to ensure schools were able to manage their finances well. In response to a question from the Committee as to whether Council officers had a role in managing schools’ accounts, it was reported that there had previously been School Financial Advisors employed by the Council, but that this had not been the case for a number of years. In response to a question from the Committee, it was confirmed that the Council had no oversight of Academy schools. In respect of budgets and monitoring reserves held by schools, it was reported that these were set out within the School Development Plans.

The Committee expressed concern regarding the audit findings relating to the Council’s procurement services, and asked who had responsibility for this area, and about the level of Member involvement in contract waivers. It was reported that the procurement function sat within Commercial and Operations, overseen by the AD Commercial and Operations. The Head of Audit and Risk Management advised that Cabinet would be required to approve contract waivers either where the contract value exceeded the level delegated to officers or for contracts of any value where a waiver was proposed for a second time.

The Committee asked about the implementation of the audit recommendations relating to procurement, and how this would be monitored. The Head of Audit and Risk Management advised that updates on the implementation of the audit recommendations would be reported to the Corporate Committee as part of the follow up audit work. It was anticipated that the introduction of the new e-procurement system would help to address several of the issues identified within procurement, as the central procurement portal would mean that no spend could be undertaken without it being registered on the system. It was confirmed that audit work on how the system was working would be undertaken during the coming year to provide assurance around this area. In response to a question from the Committee regarding the implementation of the e-procurement system, Richard Grice, AD Transformation and Resources, advised that the system had been purchased, but that implementing it had been delayed by technical issues; it was now anticipated that this would be in place by the end of March 2017.

The Committee expressed particular concern regarding the failure of senior staff to comply with procurement procedures, and asked for the relevant Cabinet Member to be invited to the next meeting of the Committee to provide an update on the implementation of the outstanding audit recommendations.

Action: Chair / clerk

RESOLVED

That the Committee note the audit coverage and follow up work completed.

121. COUNTER-FRAUD UPDATE

The Committee considered the Counter Fraud Update report 2016/17, Quarter 3, presented by Anne Woods, Head of Audit and Risk Management.

The Committee welcomed the proactive approach reflected in the report, and asked about the nature of the visits by the counter fraud team undertaken alongside gas safety engineers; it was reported that an initial exercise had been undertaken where officers attended routine gas safety checks with engineers, and as a result of this it had been identified that attending those properties where engineers had not at first been able to gain access was an area where such visits could have the most impact. Adopting a risk-based approach, counter fraud officers were therefore now accompanying warrant officers on execution of warrant of entry visits where it was suspected that the named tenant was not in occupation. In response to a question from the Committee regarding what happened if people did not respond to a Notice To Quit, it was confirmed that there were legal processes to work through where this was the case, and officers worked with Legal Services and Homes for Haringey to progress these.

In response to a question from the Committee as to whether the introduction of the Haringey Development Vehicle would have an impact on the Council's proactive counter fraud work, the Head of Audit and Risk Management advised that as with all counter fraud work, the team would work on a risk-based approach and would therefore respond as appropriate to any change in the Council's risk profile arising from the Haringey Development Vehicle.

The Committee asked about the outcomes from the recent exercise in publishing ways of contacting the Council to report suspected fraud on the back of Argos receipts. The Head of Audit and Risk Management advised that this exercise had finished just before Christmas and analysis of its effectiveness was currently being undertaken. Depending on the outcome of that analysis, the counter fraud team would then liaise with Homes for Haringey regarding rolling this exercise out more widely.

RESOLVED

That the Committee note the counter fraud work completed in the quarter to 31 December 2016.

122. GRANTS REPORT ON THE HOUSING BENEFIT SUBSIDY CLAIM

The Committee considered the report on the Grants Claims and Returns Certification, presented by Leigh Lloyd-Thomas, BDO. Mr Lloyd-Thomas advised that a significant number of errors in the Council's administration of Housing Benefits claims had been identified in the course of the auditors' work, the outcome of which was that there could potentially be a £1.5m reduction in the amount that the Council could claim back from the Government as the level of errors had exceeded the threshold allowable. It was noted that although management had implemented action plans to address such issues in the past, these appeared not to have gained significant traction and there was therefore a need for a step-change in order to prevent the Council from finding itself in a similar situation in future years.

Amelia Hadjimichael, Head of Benefits, advised the Committee that an action plan had been drawn up in response to the findings of the audit and was in the process of being implemented. A response from the Department for Work and Pensions was expected very shortly, and re-testing of the errors identified was currently being undertaken in order to try and minimise the impact on the Council. Analysis of the identified errors indicated that up to 50% of those errors were historic and pre-dated measures that had since been implemented to prevent such errors in future, but as they had had a knock-on effect on subsequent calculations, they still affected this year's audit findings. It was also found that 50% of the identified errors had been made by staff who had subsequently left the authority. A recruitment and training drive had recently been undertaken, and new staff were being closely monitored in respect of the quality of their work.

The Committee was very concerned about the findings of the report, in particular the amount of reduction in the Council's claim when considered in the context of the significant financial constraints facing the Council and the cuts that were being made in order to respond to these. It was agreed that a further update report on progress with the implementation of the action plan in order to address the issues raised should be brought back to the Committee in order that this could be closely monitored by Members. The Committee advised that they needed to consider the action plan in full, and the timescales attached to this, in order to seek some reassurance; it was concerning that previous action plans did not appear to have addressed to issues, which had been occurring for several years, and that performance had in fact deteriorated. The Committee also expressed concern that the problem appeared to be worse in Haringey than other local authorities. It was acknowledged that this was a very complex area of work, but it was essential that this was addressed effectively, and the Committee hoped that the relevant Cabinet Member was fully aware of the issue and working to address this. Officers advised that in particular this Committee would have a role in reviewing management controls that could be put in place in order to reduce the level of errors.

The Committee requested information on the level of error over the past five-year period for comparison, and it was agreed that this would be provided.

Action: Head of Benefits

The Head of Benefits advised that a particular issue had been the loss of a number of staff in the department, which had led to a backlog of cases and meant that notifications received from claimants could not be acted on in a timely manner, leading to errors which were classified as the responsibility of the local authority. It was reported, however, that a dedicated member of staff was now in place to check the classification of every overpayment generated by the system, which should help to improve things. The Committee emphasised the need to bring in additional resources to clear the backlog as a matter of urgency in order to avoid being in this position continually – it was noted that in the past agency staff had been used to fulfil such roles, although the Head of Benefits indicated that there was a preference for permanent staff as there had been issues regarding the quality of work undertaken by agency staff in the past. The Head of Benefits advised that authorisation had been provided for five additional staff members to clear the backlog, including the staff member referred to above who was checking the classification of overpayments.

The Head of Audit and Risk Management noted that this was not a new issue, but that the findings of the audit this year were concerning. In response, it was reported that internal audit would be monitoring this area of activity continually throughout the year rather than on an annual basis, and would provide quarterly reports to the Corporate Committee on this work, in order that the Committee could monitor the situation closely.

The Committee emphasised the importance of ensuring that sufficient resources were available to facilitate the work of the benefits team in order to address these very serious issues, and agreed that the Corporate Committee should make recommendations to the Head of Paid Service, Cabinet Member and Staffing and Remuneration Committee regarding the need to ensure that staffing levels in this team were adequate.

RESOLVED

That the Committee recommend to the Head of Paid Service, Cabinet Member for Finance and Health and Staffing and Remuneration Committee that steps are taken to address the backlog in the benefits department as a matter of urgency and ensure that adequate resources are available to address the issues identified by the external auditors in their certification of the grant claim.

123. PROGRESS UPDATE REPORT

The Committee considered the external audit progress report as presented by Leigh Lloyd-Thomas, BDO.

RESOLVED

That the content of the report be noted.

124. ANY OTHER BUSINESS OF AN URGENT NATURE

There were no new items of urgent business.

125. DATE AND TIME OF NEXT MEETING

Tuesday 21 March 2017, 7pm.

The meeting closed at 9.15pm.

CHAIR: Councillor Barbara Blake

Signed by Chair …………………………………..

Date …………………………………

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Report for: Corporate Committee 21st March 2017

Item number: **7**

Title: Treasury Management Q3 Update

Report authorised by: Tracie Evans, Chief Operating Officer (COO)

Lead Officer: Thomas Skeen, Head of Pensions
thomas.skeen@haringey.gov.uk 020 8489 1341

Ward(s) affected: N/A

Report for Key/ Non Key Decision: Non Key decision

1. Describe the issue under consideration

1.1. The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that Authorities report on the performance of the treasury management function at least twice yearly (mid-year and at year end). This report provides an additional quarterly update.

1.2. The Council's Treasury Management Strategy for 2016/17 was approved by Full Council on 22 February 2016.

1.3. This report updates the Committee on the Council's treasury management activities and performance in the nine months to 31st December 2016 in accordance with the CIPFA Treasury Management Code of Practice.

2. Cabinet Member Introduction

2.1. Not applicable.

3. Recommendations

3.1. That members note the Treasury Management activity undertaken during the nine months to 31st December 2016 and the performance achieved.

3.2. That members note that all treasury activities were undertaken in line with the approved Treasury Management Strategy: in particular the prudential indicators with fixed limits shown in appendix 1.

4. Reason for Decision

Haringey LONDON

4.1. None.

5. Other options considered

5.1. None.

6. Background information

Q3 Review

6.1. The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires local authorities to produce annually, Prudential Indicators and a Treasury Management Strategy Statement. CIPFA has defined Treasury management as: "The management of the local Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

6.2. The Code recommends that members are informed of treasury management activities at least twice a year. Formulation of treasury policy, strategy and activity is delegated to the Corporate Committee and this Committee receives reports quarterly.

6.3. However, overall responsibility for treasury management remains with Full Council and the Council approved the Treasury Management Strategy Statement and set the Prudential Indicators for 2016/17 on 22nd February 2016. The Corporate Committee is responsible for monitoring treasury management activity and this is achieved through the receipt of quarterly reports. This report forms the 3nd quarterly monitoring report for 2016/17.

6.4. Government guidance on local Council treasury management states that local authorities should consider the following factors in the order they are stated:

Security - Liquidity - Yield

6.5. The Treasury Management Strategy reflects these factors and is explicit that the priority for the Council is the security of its funds. However, no treasury activity is without risk and the effective identification and management of risk are integral to the Council's treasury management activities.

6.6. The quarterly reports during 2016/17 are structured to cover borrowing first and then investments according to these factors, so that members can see how they are being addressed operationally.

7. Contribution to Strategic Outcomes

7.1. None.

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

Finance and Procurement

8.1. Interest rates earned on investments remain low and significantly less than the cost of new borrowing and therefore the strategy of minimising cash balances is continuing in 2016-17. Borrowing will be taken only when required for liquidity purposes with the preference being short term local authorities' loans at very low rates. However longer term interest rates continue to be carefully monitored. The ability to take advantage of low interest rates in this way has resulted in anticipated savings on the treasury management budget.

Legal

8.2. The contents and recommendation of this report are in accordance the Treasury Management Strategy Statement and consistent with legislation governing the financial affairs of the Council. In considering the report Members must take into account the expert financial advice available to it and any further oral advice given at the meeting of the Committee.

Equalities

8.3. There are no equalities issues arising from this report.

9. Use of Appendices

9.1. Appendix 1 – Prudential Indicators
Appendix 2 – Money Markets Data & PWLB Rates
Appendix 3 – Cost of Early Repayment of PWLB Loans

10. Local Government (Access to Information) Act 1985

10.1. Not applicable.

11. External Context and Economic Commentary and Outlook

11.1. Following the sharp decline in household, business and investor sentiment that was prompted by the unexpected outcome of the referendum on EU membership in Q2, the preliminary estimate of Q3 2016 GDP defied expectations as the economy grew 0.5% quarter-on-quarter, down only slightly from 0.7% in Q2 and year on year growth running at a healthy pace of 2.3%.

11.2. Economic data continued to challenge the current sentiment throughout the quarter. Consumer Price Inflation (CPI) fell to 0.9% in October but rose to 1.2% in November, both predominantly driven by clothing, fuel and hotel prices although the Office for National Statistics (ONS) were quick to point out that there was little evidence to link this rise to the decline in the value of sterling. With sterling having now fallen by around 20% post Brexit, with its likely impact on prices still to come, according to the ONS, CPI will be heading close towards the Bank of England's target rate of 2% in the first half of 2017, consistent with the forecasts contained within the Bank's last quarterly Inflation Report issued in November 2016

11.3. After a weak August, British consumers picked up the pace of their spending in Q3. UK retail sales growth surged to a 14-year high in October as consumers kept spending and colder weather boosted clothing sales. According to the British Retail Consortium (BRC), fears over Brexit are likely to weigh on sales in the period ahead.

11.4. Labour market data also proved resilient, showing a small rise in the level of unemployment by 10,000, and average earnings dipping slightly, but at 2.3% still delivering real earnings growth although clearly under pressure from higher prices. The ILO unemployment rate remained at 4.9%, its lowest level in 11 years.

11.5. At its August meeting, the Bank of England's Monetary Policy Committee (MPC) had stated that the majority of members expected to support a further cut in Bank Rate at one of the MPC's forthcoming meetings during the course of the year. However, in the final calendar quarter of 2016 the MPC kept Bank Rate unchanged at 0.25% and asset purchases at £435 bn.

11.6. In a further twist to an extraordinary year in political events, the US voted Donald Trump as the 45th President of the United States who will take up office on 20th January 2017. Uncertainty surrounds whether or not the President-elect will make good the fiscal, regulatory and policy initiatives and changes which were central to his campaign and, if so, their timing and size and their effect on growth, employment and inflation both domestic and globally.

11.7. Following a strengthening labour market, in a move that was largely anticipated, at its meeting in December, the Federal Reserve's Open Market Committee (FOMC) increased the target range for official interest rates for just the second time in the last decade. The range was increased to between 0.5% and 0.75%, from 0.25% and 0.5%. In the accompanying statement, FOMC Chair Janet Yellen also highlighted the expectation of three further rate hikes in 2017, followed by three hikes in each of 2018 and 2019.

Market Reaction

11.8. Following the referendum result, gilt yields had fallen sharply across the maturity spectrum on the view that Bank Rate would remain extremely low for the foreseeable future. Since September there has been a reversal in longer dated gilt yields which have moved higher, largely due to the MPC revising its earlier forecast that Bank Rate would be dropping to near 0% by the end of 2016. The yield on the 10-year gilt rose from 0.75% at the end of September to 1.24% at the end of December, which is almost back at pre-Brexit levels of 1.37% on 23rd June. 20- and 50-year gilt yields have also risen considerably in the third quarter to 1.76% and 1.7% respectively, and are nearly back up to pre-Brexit levels.

11.9. However, this recovery was not realised across all maturities. The 1 year gilt yield dropped from 0.13% at the end of September to -0.004% at the end of December. The one year gilt yield first went negative at the beginning of December, having only been negative intra-day previously. 2 and 3 year gilt yields have also continued to fall.

11.10. Movements in gilt yields are reflected in the PWLB borrowing rates, as evidenced in Tables 2 and 3 in Appendix 2.

11.11. After recovering from an initial sharp drop in Quarter 2, equity markets appear to have continued their rally, although displaying some volatility at the beginning of November following the US presidential election result. The FTSE-100 and FTSE All Share indices closed at 7142.83 and 3873.22 respectively on 30th December, up 3.5% and 3.1% over the quarter.

11.12. Money market rates for very short-dated periods (overnight to 1 month) have largely started recovering from a noticeable fall in the previous quarter. 7-day and 1-month LIBID rates increased by about 0.1%, to 0.35% and 0.61% respectively. Longer-dated periods (6 months to 2 years) also increased by between 10 and 20 basis points; on 30th December the 6-month LIBID rate was 0.64%, 12-month 0.81% and the 2-year swap rate 0.60%.

12. Local Context

12.1. At 31/3/2016 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £583.7m. The Council had £312.2m of borrowing and £29.15m of investments.

12.2. The Council's current strategy is to maintain borrowing and below the Capital Financing Requirement (CFR), this is referred to as internal borrowing.

12.3. The Council has an increasing CFR over the next 3 years due to the capital programme, but minimal investments which can be used to fund capital plan cashflows. The Council is likely to need to borrow over the forecast 3 year period.

13. Borrowing Strategy During the Quarter

13.1. At 31/12/2016 the Council held £273.6m of long term loans, (a decrease of £9.7m on 31/3/2016), as part of its strategy for funding previous years' capital programmes. The Council does not expect to take out long term borrowing in 2016/17.

13.2. The Council's chief objective when borrowing continues to be striking 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 Council's long-term plans change being a secondary objective.

13.3. Affordability and the "cost of carry" remained important influences on the Council's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing. Based on professional advice received from the Council's Treasury Management advisor Arlingclose, short-term interest rates are likely to remain low for a significant period, lower than long-term rates, and the Council determined it was more cost effective in the short-term to use internal resources or borrow with short-term loans instead.

13.4. The benefits of internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose, the Council's treasury management advisor assists the Council with this 'cost of carry' and breakeven analysis.

Borrowing Activity

Borrowing	Balance at 1 Apr 2016 £'000	Borrowing Raised £'000	Maturities £'000	Balance at 31 Dec 16 £'000	Avg Rate %
Short term Borrowing					
- UK Local Authorities	29,000	227,600	214,600	42,000	0.30

Long Term Borrowing					
- PWLB	158,233	0	9,682	148,551	5.52
- LOBO	125,000	0	0	125,000	4.72
TOTAL BORROWING	312,233	227,600	224,282	315,551	4.51

13.5. **LOBOs:** The Council holds £125m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. £125m of these LOBOS had options during the quarter, none of which were exercised by the lender. The Council acknowledges there is an element of refinancing risk even though in the current interest rate environment lenders are unlikely to exercise their options.

<u>Debt Rescheduling</u>

13.6. The premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Council's portfolio and therefore unattractive for debt rescheduling activity. If existing debt profile is maintained, it is estimated that the Council will incur a net cost of £31m if all PWLB loans were rescheduled. Consequently, no rescheduling activity has been undertaken.

13.7. An analysis of the cost of early repayment on all outstanding PWLB loans has been attached at Appendix 3 of this report.

14. Investment Activities

14.1. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. Cashflow forecasts indicated that during 2016/17 the Council's investment balances would range between £0 and £50 million.

14.2. The Guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles

14.3. The Council has sought to minimise its security risk by setting limits on each institution on the lending list. The Council has complied with all these limits during the financial year to date.

14.4. The economic environment remains uncertain, and given this background, the Council has kept cash investments to a minimum and short term. Money Market Funds continue to be used extensively as the portfolios are spread across a range of underlying investments to diversify risk. They also provide instant access enabling officers to take action quickly if there are any concerns about creditworthiness. The

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remainder of the Council's investments are held with the DMO (government agency).

Investment Activity

Investments	Balance at 1 Apr 2016 £'000	Investments Made £'000	Maturities £'000	Balance at 31 Dec 16 £'000	Avg Rate /Yield %
Short term Investments (call accounts, deposits)					
- Banks & Building Societies	0	0	0	0	0
UK Government:					
- Deposits at Debt Management Office	0	259,805	259,805	0	0.19
- UK Local Authorities	10,000	0	10,000	0	0.50
Money Market Funds	7,600	200,020	184,220	23,400	0.37
TOTAL INVESTMENTS	17,600	459,825	454,025	23,400	0.34

Credit Risk

14.5. The table below shows counterparty credit quality as measured by credit ratings and the percentage of the in-house investment portfolio exposed to bail-in risk.

Date	Value Weighted Average - Credit Risk Score	Value Weighted Average - Credit Rating	Time Weighted Average - Credit Risk Score	Time Weighted Average - Credit Rating	Investments exposed to bail-in risk %
31/03/2016	2.61	AA-	2.33	AA-	21
30/06/2016	3.71	AA-	3.71	AA-	100
30/09/2016	3.98	AA-	3.98	AA-	100
31/12/2016	4.49	AA-	4.49	AA-	100

Scoring:
-Value weighted average reflects the credit quality of investments according to the size of the deposit
-Time weighted average reflects the credit quality of investments according to the maturity of the deposit
-AAA = highest credit quality = 1
- D = lowest credit quality = 26
-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

Budgeted Income and Outturn

14.6. The UK Bank Rate had been maintained at 0.5% since March 2009 until August 2016, when it was cut to 0.25%. It is likely to fall further towards zero but not go negative. Short-term money market rates have remained at relatively low levels. Following the reduction in Bank Rate, rates for very short-dated periods (overnight – 1 month) fell to between 0.1% and 0.2%. Debt Management Account Deposit Facility

(DMADF) rates fell to 0.15% for periods up to 3 months and to 0.10% for 4 – 6 month deposits.

14.7. Investments in Money Market Funds generated an average rate of 0.34%. The Council's forecast investment income for the year is estimated at £79k.

14.8. The Bank Rate is may be cut further towards zero in the coming months, which would in turn lower the rates short-dated money market investments with banks and building societies. As the Council's surplus cash continues to be invested in short-dated money market instruments, this scenario would most likely result in a fall in investment income over the year.

15. Compliance with Prudential Indicators

15.1. The Council confirms compliance with its Prudential Indicators for 2016/17, which was set in February 2016 as part of the Council's Treasury Management Strategy Statement.

Treasury Management Indicator

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

15.3. **Interest Rate Exposures**: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net [principal borrowed] will be:

	2016/17	2017/18	2018/19
Upper limit on fixed interest rate exposure	100%	100%	100%
Actual	99%		
Upper limit on variable interest rate exposure	40%	40%	40%
Actual	1%		

15.4. Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

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

Maturity structure of borrowing (U: upper, L: lower)	L	U	Forecast 31 Dec 2016
under 12 months	0%	40%	5.2%

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12 months & within 2 years	0%	35%	3.9%
2 years & within 5 years	0%	35%	10.3%
5 years & within 10 years	0%	35%	8.0%
10 yrs & within 20 yrs	0%	35%	4.4%
20 yrs & within 30 yrs	0%	35%	3.7%
30 yrs & within 40 yrs	0%	35%	33.6%
40 yrs & within 50 yrs	0%	50%	31.0%
50 yrs & above	0%	50%	0.0%

15.6. 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.

15.7. **Principal Sums Invested for Periods Longer than 364 days:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. Given the policy of spending down cash balances and use of internal borrowing the Council does not expect to invest beyond 364 days in the medium term.

16. <u>Outlook for the remainder of 2016/17</u>

16.1. Globally, the outlook is uncertain and risks remain weighted to the downside. The UK domestic outlook is uncertain, but likely to be weaker in the short/medium term than previously expected.

16.2. Arlingclose, the Council's treasury management advisor believes that the Bank Rate will remain at 0.25%, but there is a low possibility of a drop to close to zero, with a very small chance of a reduction below zero.

16.3. Gilt yields have risen over the past quarter, but remain at relatively low levels. Arlingclose believes that yields will decline when the government triggers Article 50.

Appendix 1: Treasury & Prudential Indicators

No.	Prudential Indicator	2016/17 Original Indicator	2016/17 Position/Forecast December 2016
CAPITAL INDICATORS			
1	Capital Expenditure	£'000	£'000
	General Fund	50,682	67,795
	HRA	64,307	61,886
	TOTAL	114,989	129,681
2	Ratio of financing costs to net revenue stream	%	%
	General Fund	1.93	1.89
	HRA	8.88	9.06
3	Capital Financing Requirement	£'000	£'000
	General Fund	290,670	308,590
	HRA	293,002	271,096
	TOTAL	583,672	579,686
4	Incremental impact of capital investment decisions	£	£
	Band D Council Tax	32.04	1.58
	Weekly Housing rents	1.51	0.81
5	Borrowing Limits	£'000	£'000
	Authorised Limit / actual debt	528,231	315,551
	Operational Boundary/actual debt	472,772	315,551

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No.	Prudential Indicator	2016/17 Original Indicator		Forecast 31 Dec 2016
6	HRA Debt Cap	£'000		£'000
	Headroom	44,235		56,442
7	Gross debt compared to CFR	£'000		£'000
	Gross debt	312,233		315,551
	CFR	583,672		579,686
8	Upper limit – fixed rate exposure	100%		99%
	Upper limit – variable rate	40%		1%
9	Maturity structure of borrowing (U: upper, L: lower)	**L**	**U**	**Forecast 31 Dec 2016**
	under 12 months	0%	40%	5.2%
	12 months & within 2 years	0%	35%	3.9%
	2 years & within 5 years	0%	35%	10.3%
	5 years & within 10 years	0%	35%	8.0%
	10 yrs & within 20 yrs	0%	35%	4.4%
	20 yrs & within 30 yrs	0%	35%	3.7%
	30 yrs & within 40 yrs	0%	35%	33.6%
	40 yrs & within 50 yrs	0%	50%	31.0%
	50 yrs & above	0%	50%	0.0%
10	Sums invested for > 364 days	£0		£0
11	Adoption of CIPFA Treasury Management Code of Practice	√		√
12	**LOBO Adjusted** Maturity structure of borrowing (U: upper, L: lower)	L	U	**Forecast 31 Dec 2016**
	under 12 months	0%	40%	51.0%
	12 months & within 2 years	0%	35%	3.9%
	2 years & within 5 years	0%	35%	10.3%
	5 years & within 10 years	0%	35%	8.0%
	10 yrs & within 20 yrs	0%	35%	0.8%
	20 yrs & within 30 yrs	0%	35%	3.7%
	30 yrs & within 40 yrs	0%	35%	18.9%
	40 yrs & within 50 yrs	0%	50%	3.5%
	50 yrs & above	0%	50%	0.0%

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Appendix 2

Money Market Data and PWLB Rates

The average, low and high rates correspond to the rates during the financial year rather than those in the tables below.

Please note that the PWLB rates below are Standard Rates. Haringey is eligible for the Certainty Rate which means it can borrow at a 0.20% reduction of Standard Rates.

Table 1: Bank Rate, Money Market Rates

Date	Bank Rate	O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/4/2016	0.50	0.36	0.36	0.39	0.46	0.61	0.88	0.78	0.83	0.98
30/4/2016	0.50	0.36	0.36	0.38	0.47	0.62	0.90	0.86	0.95	1.13
31/5/2016	0.50	0.35	0.37	0.39	0.46	0.61	0.89	0.82	0.92	1.09
30/6/2016	0.50	0.35	0.36	0.39	0.43	0.55	0.80	0.49	0.49	0.60
31/7/2016	0.50	0.15	0.45	0.42	0.52	0.64	0.77	0.47	0.47	0.54
31/8/2016	0.25	0.11	0.18	0.18	0.38	0.54	0.69	0.42	0.42	0.48
30/9/2016	0.25	0.10	0.25	0.45	0.51	0.61	0.74	0.43	0.42	0.47
31/10/2016	0.25	0.11	0.20	0.25	0.42	0.55	0.75	0.61	0.68	0.83
30/11/2016	0.25	0.11	0.20	0.38	0.52	0.63	0.81	0.65	0.75	0.95
30/12/2016	0.25	0.00	0.35	0.58	0.56	0.64	0.81	0.60	0.68	0.86
Average	0.25	0.20	0.32	0.40	0.51	0.64	0.92	0.82	0.87	0.61
Maximum	0.25	0.43	0.55	0.80	0.72	0.83	0.88	1.04	0.88	1.20
Minimum	0.25	0.00	0.15	0.18	0.30	0.50	0.55	0.66	0.38	0.42
Spread	--	0.43	0.40	0.62	0.42	0.33	0.33	0.38	0.51	0.78

Table 2: PWLB Borrowing Rates – Fixed Rate, Maturity Loans (Standard Rate)

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/4/2016	125/16	1.33	1.82	2.51	3.24	3.33	3.19	3.15
30/4/2016	165/16	1.37	1.95	2.65	3.34	3.40	3.25	3.21
31/5/2016	205/16	1.36	1.93	2.56	3.22	3.27	3.11	3.07
30/6/2016	249/16	1.17	1.48	2.09	2.79	2.82	2.61	2.57
31/7/2016	292/16	1.07	1.31	1.84	2.57	2.65	2.48	2.44
31/8/2016	336/16	1.09	1.23	1.65	2.22	2.29	2.12	2.08
30/9/2016	380/16	1.02	1.20	1.70	2.34	2.43	2.29	2.27
31/10/2016	422/16	1.18	1.65	1.93	2.28	2.67	2.90	2.71
30/11/2016	466/16	1.01	1.65	2.00	2.42	2.82	2.99	2.77
30/12/2016	505/16	0.97	1.55	1.88	2.28	2.68	2.87	2.66
	Low	0.960	1.150	1.330	1.620	1.980	2.270	0.960
	Average	1.152	1.557	1.820	2.177	2.600	2.879	2.679
	High	1.400	2.000	2.320	2.710	3.150	3.460	3.280

Table 3: PWLB Borrowing Rates – Fixed Rate, Equal Instalment of Principal (EIP) Loans

Change Date	Notice No	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/4/2016	125/16	1.50	1.86	2.54	2.99	3.25	3.34
30/4/2016	165/16	1.59	1.99	2.68	3.11	3.34	3.42
31/5/2016	205/16	1.58	1.97	2.58	2.99	3.23	3.30
30/6/2016	249/16	1.24	1.51	2.11	2.55	2.79	2.86
31/7/2016	292/16	1.13	1.34	1.87	2.31	2.58	2.67
31/8/2016	336/16	1.12	1.25	1.67	2.02	2.23	2.31
30/9/2016	380/16	1.05	1.22	1.72	2.13	2.36	2.44
31/10/2016	422/16	1.36	1.49	1.69	2.02	2.68	2.93
30/11/2016	466/16	1.25	1.42	1.69	2.12	2.83	3.03
30/12/2016	505/16	1.19	1.34	1.59	1.99	2.69	2.91
	Low	1.030	1.070	1.170	1.400	2.000	2.280
	Average	1.289	1.399	1.589	1.916	2.615	2.907
	High	1.630	1.790	2.040	2.420	3.170	3.480

Table 4: PWLB Variable Rates

	1-M Rate	3-M Rate	6-M Rate	1-M Rate	3-M Rate	6-M Rate
	Pre-CSR	Pre-CSR	Pre-CSR	Post-CSR	Post-CSR	Post-CSR
1/4/2016	0.61	0.65	0.67	1.51	1.55	1.57
30/4/2016	0.61	0.65	0.67	1.51	1.55	1.57
31/5/2016	0.65	0.66	0.70	1.55	1.56	1.60
30/6/2016	0.64	0.62	0.62	1.54	1.52	1.52
31/7/2016	0.55	0.48	0.45	1.45	1.38	1.35
31/8/2016	0.38	0.41	0.48	2.18	1.31	1.38
30/9/2016	0.38	0.40	0.48	1.28	1.30	1.38
31/10/2016	1.08	1.12	1.22	1.28	1.32	1.42
30/11/2016	1.05	1.08	1.11	1.25	1.28	1.31
30/12/2016	1.05	1.10	1.13	1.25	1.30	1.33

Please note post CSR rates are standard rates

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Cost of Early Replacement of PWLB Loans

Appendix 3

Loan No	Balance Outstanding	PREM	DISC	Years to Maturity	Loan rate	New Rate to Match Profile	Interest Pymt to Maturity	Interest to Maturity New Rate	Cost of Early Repayment	Net Cost / Saving of Early Repayment
452514	10,650,715.68	1,713,644.72	0	1.641096	10.125%	1.01%	1,769,733	219,940.86	1,933,585.58	163,852.45
452731	823,210.28	247,122.46	0	3.060274	10.375%	1.15%	261,372	40,400.52	287,522.98	26,150.90
452732	6,777,728.16	2,034,630.62	0	3.060274	10.375%	1.15%	2,151,952	332,629.18	2,367,259.80	215,307.90
496953	3,872,987.52	-	0	3.430137	0.670%	1.15%	89,009	152,781.68	152,781.68	63,773.00
453310	6,777,728.16	2,576,501.29	0	4.063014	10.125%	1.26%	2,788,223	510,288.21	3,086,789.50	298,566.76
501694	5,000,000.00	392,864.84	0	5.054795	2.360%	1.37%	596,466	379,591.80	772,456.64	175,990.89
501715	5,000,000.00	375,768.51	0	5.057534	2.290%	1.37%	579,088	378,366.10	754,134.61	175,046.94
450600	2,947,470.96	1,637,329.79	0	5.967123	10.500%	1.43%	1,846,732	416,498.15	2,053,827.94	207,096.06
483960	16,702,258.68	4,549,142.78	0	7.421918	4.875%	1.62%	6,043,186	2,596,573.94	7,145,716.72	1,102,530.65
483959	2,178,555.48	643,428.72	0	8.421918	4.875%	1.73%	894,446	417,359.90	1,060,788.62	166,342.38
490024	12,103,086.00	4,467,280.60	0	18.58082	4.450%	2.46%	10,007,395	7,714,254.40	12,181,534.99	2,174,139.78
492069	2,904,740.64	1,550,041.87	0	35.85479	4.200%	2.42%	4,374,253	3,890,400.66	5,440,442.54	1,066,189.63
492208	2,904,740.64	1,442,825.36	0	35.94521	4.050%	2.42%	4,228,666	3,796,704.50	5,239,529.86	1,010,864.14
492070	2,904,740.64	1,598,995.56	0	36.85479	4.200%	2.40%	4,496,252	4,009,099.53	5,608,095.09	1,111,843.08
492209	2,904,740.64	1,489,364.68	0	36.94521	4.050%	2.40%	4,346,308	3,911,301.63	5,400,666.31	1,054,358.60
492071	2,904,740.64	1,638,092.64	0	37.85479	4.200%	2.38%	4,618,251	4,118,611.91	5,756,704.55	1,138,453.43
492210	2,420,617.20	1,271,855.69	0	37.94521	4.050%	2.38%	3,719,958	3,347,353.71	4,619,209.40	899,251.31
493430	7,261,851.60	5,302,094.20	0	38.25205	4.800%	2.37%	13,333,476	11,502,980.13	16,805,074.33	3,471,598.55
492072	2,904,740.64	1,677,119.37	0	38.85479	4.200%	2.37%	4,740,250	4,245,411.74	5,922,531.11	1,182,280.89
493431	7,261,851.60	5,421,779.36	0	39.25205	4.800%	2.36%	13,682,045	11,864,152.34	17,285,931.70	3,603,887.05
491796	14,523,703.20	9,547,064.56	0	39.71781	4.450%	2.35%	25,669,810	22,695,092.99	32,242,157.55	6,572,347.76
492073	2,904,740.64	1,716,085.73	0	39.85753	4.200%	2.35%	4,862,584	4,354,547.11	6,070,632.84	1,208,049.26
497811	9,682,468.80	5,411,345.66	0	43.88219	3.920%	2.32%	16,655,608	15,443,398.19	20,854,743.85	4,199,136.10
Totals	**158,233,115.74**	**57,479,644.39**					**131,755,060.70**	**106,337,739.17**	**163,042,118.19**	**31,287,057.49**

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Agenda Item 8

Report for: Corporate Committee

Item number: 8

Title: Haringey Council Smoking Policy

Report authorised by : Dr Jeanelle de Gruchy, Director of Public Health

Lead Officer: Deborah Millward, Healthy Public Policy Officer

Ward(s) affected: N/A

Report for Key/ Non Key Decision:

1. **Describe the issue under consideration**

1.1 This report seeks agreement from the Committee to proposed changes to the Council's revised Smoking Policy. The revised Smoking Policy is at Appendix A.

2. **Cabinet Member introduction**

2.1 N/A

3. **Recommendations**

3.1 The Corporate Committee is asked to agree to proposed changes to Haringey Council's Smoking Policy . The proposed revised Smoking Policy is at Appendix A. All contractors, while on council business will be required to comply with the Smoking Policy. These proposed changes include:

- Not allowing employees to smoking during working hours. If staff wish to smoke they may only do so during unpaid breaks e.g. before and after work and at lunchtime

- Instructing smokers that when smoking during official unpaid breaks they must ensure that they are not identifiable as Council employees e.g. they must not be wearing lanyards and uniform.

- Under the existing policy Smoking is not permitted inside the buildings or within the grounds of all Council premises; this includes outdoor areas such as car parks and surrounding entrances/ exits to buildings (for at least 20 meters). The changes to the Smoking Policy instruct employees who smoke during unpaid breaks to do so away from residential properties and not congregate outside other commercial properties to smoke.

- Permitting the use of e-cigarettes (vaping) on outdoor Council premises.

4. **Reasons for decision**

4.1 The Council has a duty to protect the health of its employees. The evidence that exposure to other people's smoke is dangerous to health is undeniable.

4.2 The Council is committed to providing support for employees who smoke and who want help with giving up. Under the terms of this Policy, employees are entitled to access support, which is currently up to six smoking cessation sessions during work time, and will be fully supported by their manager in doing so.

4.3 Everyone working and visiting Council premises has a right to be in a smoke-free environment protected from the dangers of cigarette smoke.

4.4 There is no 'right to smoke' and this has been confirmed by the Employment Appeal Tribunal in the case of Dryden v Greater Glasgow Health Board [1992] IRLR 469 , which confirmed that an employee who had smoked at work for a

considerable time did not have an implied term in her contract entitling her to smoke at work, and that a total ban on smoking on the employer's premises was a "works rule" that the employer was entitled to implement.

4.5 In February 2016 Haringey's Health and Wellbeing Board and Chief Executive signed the Local Government Declaration on Tobacco Control, committing the Council to take action on tobacco related issues and to act as an exemplar to others.

5 Alternative options considered

5.1 As part of a rigorous exercise Public Health developed an options paper and consulted with the Workforce Health and Wellbeing board. The agreed options are embedded in the refreshed Smoking Policy.

6 Background information

6.1 The Health Act 2006 and The Smoke-free (Premises and Enforcement) Regulations 2006 mean that from 1st July 2007 smoking is prohibited in all workplaces and enclosed public spaces, including work vehicles.

6.2 The Council is committed to improving health, wellbeing and reducing health inequalities for all residents, visitors and employees of the borough ,as part of the Council's Health and Wellbeing Strategy and Corporate Plan 2015- 2018. One of the ambitions in the Council's 's Health and Wellbeing Strategy is to strengthen our tobacco control work to increase healthy life expectancy in the borough. The Corporate Plan also commits to creating a fair and equal borough (Cross-Cutting Theme) by prioritising prevention of ill health and tackling the key causes of health inequalities through enforcement of the smoke-free workplace legislation. The purpose of this policy is to:

- Demonstrate the Council's commitment to preventing ill health.
- Protect employees, visitors and contractors from the harm of tobacco smoke whilst on y Council premises.
- Promote smoking cessation as a key way of improving health and wellbeing for all.
- Ensure those who smoke are given support, help and encouragement to quit when they choose to do so.
- Limit the negative impacts of smoking on employees' health and productivity.
- Conform to the law around smoke-free workplaces and enclosed public spaces.

6.3 There has been ongoing consultation and engagement during the development of the policy with a number of groups. This includes

- Workforce Health and Wellbeing Board.
- Trade Union and Human Resources Corporate Meeting.
- Services and organisations operating out of Council property. For example Haringey's Clinical Commissioning Group and Homes for Haringey's HR department.

6.4 There has been strong support and proactive engagement for the policy from, Internal Corporate Boards, trade unions and services operating out of our Council property. Further Homes for Haringey have agreed to endorse our Smoking Policy once it is implemented to ensure uniformity across the two organisations.

6.5 On 7th February 2017 the Staff and Remuneration Committee agreed the changes the changes to the Smoking Policy.

7 Contribution to strategic outcomes

7.1 The Smoking Policy is linked to the Council's Corporate Plan, Building a Stronger Haringey Together 2015-18, in particular Priority 2 'Empower all adults to live healthy, long & fulfilling lives' and the cross- cutting themes, specifically: prevention and early intervention as outlined in Objective 1 'Become an organisation focused on prevention and early help'.

8 Comments of the Chief Finance Officer and financial implications

8.1 N/A as there are no financial implications of introducing this policy.

9 Head of Procurement comments

n/a

10 Comments of the Assistant Director of Corporate Governance and legal implications

The policy is compliant with the current legislative activity with regard to the Council's obligations in accordance with section 4 of the 1974 Health and Safety at Work Act. The policy extends to Contractors who work on Council property. Moreover, the policy contains restrictions that are applicable on external Council premises.

The position with the individual contractors is that they are not protected by the employment protection rights with regards to dismissals. The option to terminate the contract is available for any non-compliance with the restrictions set out in the policy, in accordance with the termination provisions of the original agreement with the contractor.

11 Equalities and Community Cohesion Comments

The Council has a public sector equality duty under the Equality Act 2010 to have due regard to the need to :

- Eliminate discrimination, harassment and victimisation of persons and any other conduct prohibited by or under the Act.;
- Advance equality of opportunity between people who share a relevant protected characteristic and people who do not share it ;

- Foster good relations between people who share a relevant protected characteristic and people who do not share it
- A "relevant protected characteristic" is . age, disability, gender reassignment, , pregnancy and maternity, race, religion or belief, sex (formerly gender) and sexual orientation

We did not proceed with an EqIA as we expect that the revised Policy will have a positive impact for staff who smoke as it will encourage them to quit. We do not envisage any discrimination or inequalities caused by this revised Policy.

12 Policy Implication

13 Use of Appendices

Appendix A – revised Smoking Policy

Smoking Policy

2016

Document Control

Version History	v 4
Summary of Change	This policy updates and replaces the November 2014 version. The policy includes new clauses that: • Restricts smoking to official unpaid breaks; • Instruct employees not to congregate outside residential or commercial buildings when smoking. • Instructs smokers that they must ensure that they are not identifiable as Council employee • Permitting the use of e-cigarettes (vaping) within outdoor council premises
Contact (job title)	Deborah Millward (Healthy Public Policy Officer)
Implementation date	
Review Date	
EqIA Date	
Decision making body & date of approval	Staffing and Remuneration Committee – 07/02/17 Corporate Committee – 21/03/17
Classification	

Contents

Introduction

1.1 The Health Act 2006 and The Smoke-free (Premises and Enforcement) Regulations 2006 mean that from 1st July 2007 smoking is prohibited in all workplaces and enclosed public spaces, including work vehicles.

1.2 Haringey Council is committed to improving health, wellbeing and reducing health inequalities for all residents and employees. Haringey's Health and Wellbeing Strategy has the ambition to strengthen our tobacco control work to increase healthy life expectancy; tobacco is a major contributor to the unequal gap in life expectancy in the borough. The Corporate Plan also commits to creating a fair and equal borough (Cross-Cutting theme) by prioritising prevention of ill health and tackling the key causes of health inequalities through enforcement of the smoke-free workplace legislation. The purpose of this policy is to:

- Demonstrate Haringey Council's commitment to preventing ill health and tackling health inequalities.
- Protect employees, visitors and contractors from the harm of tobacco smoke whilst on Haringey Council premises.
- Ensure those who smoke are given support, help and encouragement to quit when they choose to do so.
- Limit the negative impacts of smoking on employees' health and productivity.
- Conform to the law around smoke-free workplaces and enclosed public spaces.

1.3 In February 2016 Haringey's Health and Wellbeing Board and Chief Executive signed the Local Government Declaration on Tobacco Control, committing the Council to take action on tobacco related issues and act as an exemplar to others.

1.4 To underpin the policy the Council has developed additional guidance and supporting documents that contain information on where to get support for people who wish to quit and information on temporary abstinence whilst at work.

1.5 All smokers will be encouraged to use licensed nicotine replacement therapy such as patches, gum and e-cigarettes, and to access the most effective way to quit via Haringey's One You Stop Smoking Services.

Scope

2.1 This procedure applies to Councillors, all Council employees, contractors and workers, both Casual and Agency and visitors to Haringey premises.

General Principles

3.1 Haringey Council has a duty to protect the health of its employees. The evidence that exposure to other people's smoke is dangerous to health is undeniable.

3.2 Everyone working and visiting Haringey Council premises has a right to be in a smoke-free environment protected from the dangers of cigarette smoke. As such, there is a ban on smoking in or near council premises. .

3.3 All Haringey Council employees have the responsibility for implementing this policy on site, both as part of their own conduct and when dealing with clients, visitors and contractors.

3.4 The Council is committed to providing support for employees who smoke and who want help with giving up. Under the terms of this policy, employees are entitled to access support - currently up to six smoking cessation sessions during work time - and will be fully supported by their manager in doing so. See section 8 for information about how to access stop smoking support.

3.5 All visitors to Council premises will be expected to abide by the smoke-free rule.

3.6 There is no 'right to smoke' and this has been confirmed by the Court of Appeal that stated the right to smoke was not protected by Article 8 of the Human Rights Act 1998 (HRA), The primary Human Right is a Right to Life and therefore other choices that limit this are overridden by the right to life.

Application

4.1 Smoking is not permitted inside the buildings or within the grounds of all Council premises; this includes outdoor areas such as car parks and surrounding entrances/ exits to buildings (for at least 20 meters). Smoking during official unpaid breaks must be taken away from Council buildings and smokers must ensure that they are not identifiable as Council employees when smoking.

4.2 Employees who smoke during official unpaid breaks such as lunchtime must do so away from residential properties and not congregate outside other commercial properties to smoke.

4.3 Smoking is not permitted in playgrounds and other outdoor areas mainly used by children and young people under the age of 16, or in sports grounds and other locations in part used for promoting and maintaining fitness and health.

4.4 All Council vehicles including vehicles on loan, hire or leased to the Council and used for the purpose of work, will be smoke-free. This is in line with the Smoke-free (Premises and Enforcement) Regulations 2006.

4.5 When carrying out home visits to clients council employees are not allowed to smoke in their homes or workplaces, even when others present may be smoking.

4.6 Haringey Council is committed to protecting its employees from the harm caused by passive smoking while at work. During home visits, clients and anyone else in the home at the time must be asked to refrain from smoking while Council employees are present. Clients should be asked to keep the room in which treatment or care is being carried out as smoke-free at all times'. Employee should raise concerns with their manager.

4.7 E-cigarette use (vaping) is not permitted inside any council building.

4.8 Employees who wish to use e-cigarettes are only permitted to do so in outdoor areas and grounds of Haringey Council premises.

4.9 Employees are expected to make visitors and contractors aware of the smoking restrictions. Issues with non-compliance should be escalated to line managers.

4.10 Any employee smoking in an enclosed public space or workplace breaks the law and is liable to prosecution. Staff breaching this policy may be subject to disciplinary procedures.

Penalties for non-compliance with the Legislation

5.1 Priority three of the Corporate Plan 2015-18 includes a commitment to create *'A clean, well maintained and safe borough where people are proud to live and work'* and ensuring our streets, parks and estates are clean, well maintained and safe.

5.2 Where smokers are smoking within the constraints of this policy they are responsible for properly disposing of their cigarette stubs and cigarette waste by ensuring that these are completely extinguished before placing in appropriate litterbins.

5.3 Smokers who fail to dispose of cigarette stubs properly can be issued with a Fixed Penalty Notice or a Court fine up to £200.

Smoking breaks

6.1 Employees are not allowed to smoke during working hours.

6.2 No additional breaks will be given to employees who smoke. Employees can only smoke in their own time e.g. before or after work or during their lunch break. Smoking in Council buildings and grounds is not permitted, even during official breaks.

E-cigarettes and vaping

7.1 Haringey Council acknowledges that some employees may wish to use e-cigarettes (vape) as an aid to giving up or reducing smoking.

7.2 The use of e-cigarettes/vaping is not permitted inside any council building or in any enclosed or substantially enclosed workplaces.

7.3 Employees who vape during official breaks such as lunchtime must do so away from residential properties and immediate surroundings of council premises e.g. not within 20 meters of entrances and exits

7.4 The use of e-cigarettes/vaping is not permitted while in any vehicle that is used for either paid or voluntary work including Haringey Council's own fleet vehicle because the council a) treats these as enclosed spaces and b) council policy does not permit smoking, mobile phone use or any other activity while driving for health and safety reasons.

7.5 Due to potential health and safety implications employees are not permitted to charge e-cigarettes at work or in vehicles. (This policy applies to all electrical devices including mobile phone chargers which have not been tested and approved.)

Support to stop smoking

8.1 Staff who reside in the borough who wish to stop smoking can get support by calling One You Haringey – 020 8885 9095 or by visiting the One You Haringey website. All other members of staff can find details of their nearest stop smoking service by visiting the NHS Choices website.

8.2 Additional information on is available

- www.ash.org.uk – Action on Smoking and Health: information on all aspects of smoking including Local Authority issues.
- www.tuc.org.uk – Trades Union Congress: information on workplace smoking issues
- www.nhsdirect.nhs.uk: information and advice on the effects of smoking and giving up and on other health issues

Disciplinary Action

9.1 Employees who fail to comply with the smoke-free workplace legislation will be subject to the Council's disciplinary procedures as well as any sanction that may be applicable under criminal law.

Monitoring and Review

10.1 The Workforce Health and Wellbeing Board will monitor and review the policy and consult on any proposed changes to it.

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Agenda Item 9

Report for: **Corporate Committee – 21 March 2017**

Item number:

Title: **Annual Internal Audit Plan and Strategy 2017/18**

Report authorised by : **Assistant Director of Corporate Governance**

Lead Officer: Anne Woods, Head of Audit and Risk Management
Tel: 020 8489 5973
Email: anne.woods@haringey.gov.uk

Ward(s) affected: **N/A**

Report for Key/ Non Key Decision: **Non-key decision**

1. Describe the issue under consideration

1.1 The Corporate Committee is responsible for reviewing and approving the annual internal audit plan as part of its Terms of Reference.

1.2 In order to facilitate this, a draft internal audit plan for 2017/18, together with the internal audit strategy, is provided for review and approval by the Corporate Committee.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 That the Corporate Committee reviews and approves the Internal Audit strategy.

3.2 That the Corporate Committee reviews and approves the Annual Internal Audit Plan for 2017/18.

4. Reasons for decision

4.1 Local authorities are required by law to maintain an internal audit function. In addition, The Accounts and Audit Regulations 2015 reinforce the statutory requirement and re-state the need for the Council to maintain an adequate and effective system of internal audit.

4.2 The annual internal audit plan is a key element in delivering the Council's statutory requirements. The Corporate Committee is responsible for ensuring that this is in place and approving the Council's Annual Internal Audit Plan.

5. Alternative options considered

5.1 Not applicable.

6. Background information

6.1 Within Haringey, the Internal Audit function is comprised of Mazars, who undertake the majority of the internal audit work in accordance with the contract in place, including IT and procurement audit. The in-house corporate anti-fraud team is responsible for investigations into allegations of financial irregularity, pro-active and reactive corporate anti-fraud work, provision of advice on risk and controls and some grant certification work.

6.2 Appendix A contains the proposed annual audit plan for 2017/18, which is risk based and has been derived following consideration of: the Corporate Plan and related Priorities; organisational changes; risk registers; corporate programmes and projects; new projects and procurement activities reported to the Cabinet; the Annual Audit and Inspection Letter; changes to legislation; and fraud investigation work completed in 2016/17.

6.3 This approach reflects current best practice requirements for internal audit and ensures that, over the life of the contract, the Council's key financial and non-financial systems and services will be appropriately reviewed according to risk. This approach also ensures that the Council operates a fully integrated internal audit and risk management process.

6.4 Appendix A also includes the audit strategy which will be used to deliver the Council's internal audit plan. The strategy complies with the statutory 2013 UK Public Sector Internal Audit Standards (PSIAS), which provide a consistent framework for internal audit services across the UK public sector.

7. Contribution to strategic outcomes

7.1 Internal audit is an important element of the Council's assurance processes. The internal audit and counter-fraud teams make a significant contribution to ensuring the adequacy and effectiveness of internal control throughout the Council, which covers all Priority areas. The annual audit plan is a key element in ensuring the Council complies with its statutory responsibilities.

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

8.1 Finance and Procurement

There are no direct financial implications arising from this report. The work which will be completed by Mazars to undertake the annual audit plan in 2017/18 is part of the contract which was extended to 31 March 2018 in accordance with EU regulations. The costs of this contract are contained and managed within the Audit and Risk Management revenue budgets which are monitored on a monthly basis.

The Chief Finance Officer confirms that the presentation of the attached draft annual internal audit plan for approval by this Committee meets the Council's statutory requirement under the 2015 Accounts and Audit Regulations.

8.2 Legal

The Assistant Director, Corporate Governance has been consulted in the preparation of this report, and in noting that the plan and strategy follow best practice and industry standards respectively, confirms that there are no direct implications arising out of the report.

8.3 Equality

The Council has a public sector equality duty under the Equality Act (2010) to have due regard to:

- tackle discrimination and victimisation of persons that share the characteristics protected under S4 of the Act. These include the characteristics of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex (formerly gender) and sexual orientation;
- advance equality of opportunity between people who share those protected characteristics and people who do not;
- foster good relations between people who share those characteristics and people who do not.

As contracted providers of Haringey Council, the internal audit contractor is required to demonstrate a strong commitment to equality and fairness in their actions and work practices, and adherence to the Equality Act 2010. Ensuring that the Council has effective internal audit and assurance arrangements in place will also assist the Council to use its available resources more effectively.

9. Use of Appendices

Appendix A – Draft Annual Internal Audit Plan and Strategy 2017/18

10. Local Government (Access to Information) Act 1985

Not applicable

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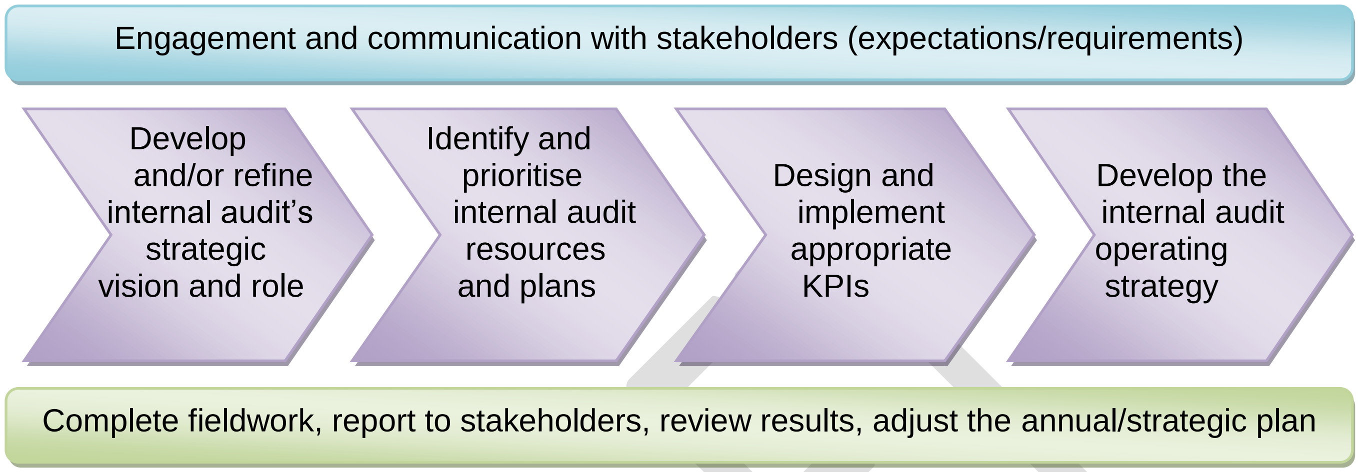
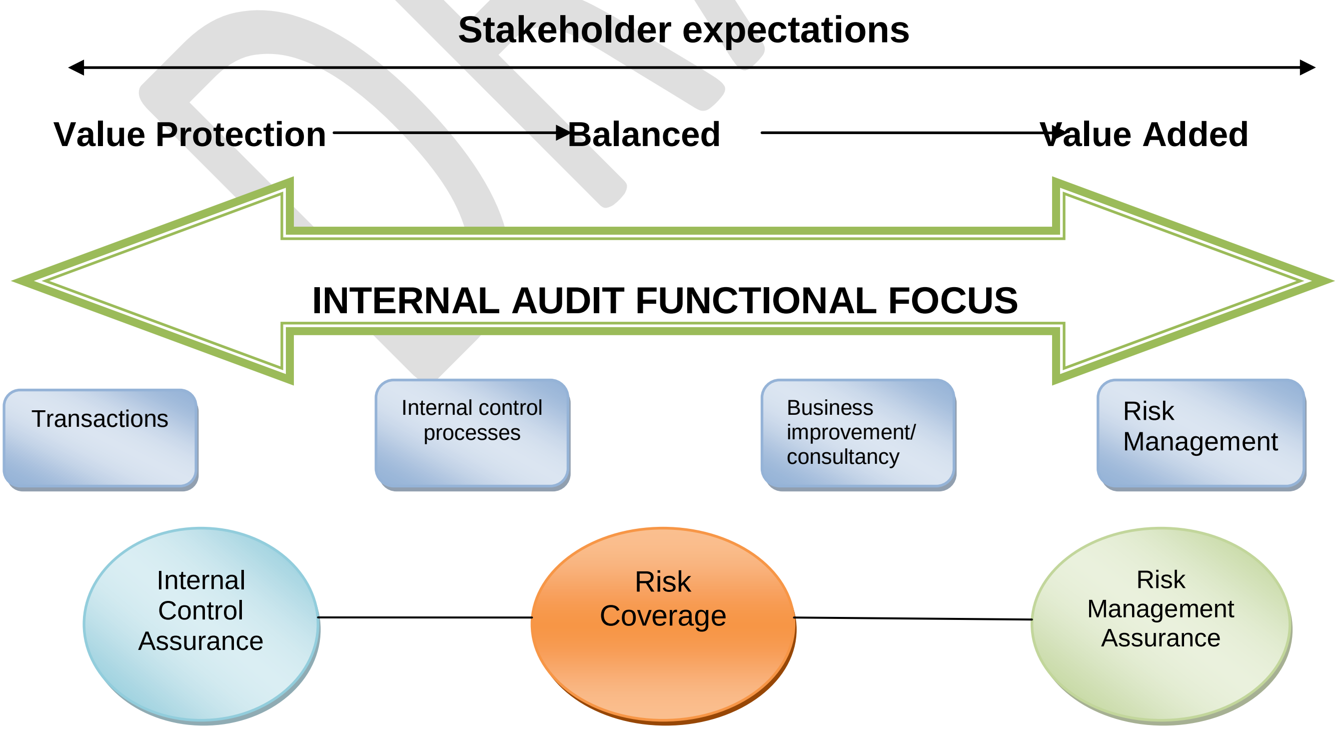
Internal Audit Strategy – Introduction

Haringey's internal audit function is driven by an appropriate strategy, rather than as a tactical response to operational issues, to minimise the risks that key strategic issues could be overlooked. Haringey's framework has been developed to cover both strategic and tactical considerations and ensures that internal audit resources are used to provide the appropriate assurances for the organisation at any one time, as follows:



To create an effective internal audit function, internal audit's key stakeholders will determine how the audit function delivers the desired value by focusing on e.g. risk management and control assurance; assessment of internal control effectiveness and efficiency; regulatory and corporate compliance assurance; developing awareness of risk and control across the organisation. Internal audit's resources and plans are then aligned to the Council's key business risks and operational and financial priorities as follows:



Internal Audit Objectives

Haringey's approach is designed to enable internal audit's remit to evolve and develop as the organisation's needs change over time. As stakeholder needs evolve, internal audit can focus on creating value through assisting with improvements in operational processes. As Haringey's risk appetite changes, internal audit's strategy and functional focus can move from internal control, to risk management, assurance.

The internal audit strategy sets out how the Council's Internal Audit service will be delivered, in accordance with the Internal Audit Charter. Internal Audit will provide independent and objective assurance to the Council, its members, the Chief Executive and Senior Leadership Team and to the Chief Financial Officer to support them in discharging their responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs. It is the Council's intention to provide a best practice, cost efficient internal audit service which fulfils the requirements of the statutory 2013 UK Public Sector Internal Audit Standards (PSIAS).

Internal Audit's Remit

Internal Audit will:

- Provide management and members with an independent, objective assurance and advisory activity designed to add value and improve the Council's operations;
- Assist the Corporate Committee to reinforce the importance of effective corporate governance and ensure internal control improvements are delivered;
- Drive organisational change to improve processes and service performance;
- Work with other internal stakeholders and customers to review and recommend improvements to internal control and governance arrangements in accordance with regulatory and statutory requirements;
- Work closely with other assurance providers to share information and provide a value for money assurance service; and
- Participate in local and national bodies and working groups to influence agendas and developments within the profession.

Internal Audit will ensure that it is not involved in the design, installation and operation of controls so as to compromise its independence and objectivity. Internal Audit will however offer advice on the design of new internal controls in accordance with best practice.

Service Delivery 2017/18

The internal audit service will be delivered by a 'mixed economy' of externally procured services under the direction of the Council's Head of Audit and Risk Management, supported by an in-house Corporate Anti-Fraud Team. The Council participates in the London Audit & Anti-Fraud Partnership to work with other local authorities on a shared service basis. This includes appropriate: resource provision, joint working, audit management & strategy and a range of value added services.

The resources to deliver the internal audit and counter-fraud function have been assessed as adequate to fulfil the requirements of the PSIAS and ensure that the key risks of the Council are subject to an appropriate level of independent audit review.

Internal Audit Planning

Audit planning will be undertaken on an annual basis and audit coverage will be based on the following:

- Discussions with the Council's senior management, statutory officers and Priority Owners;
- The Council's Risk Registers and Corporate Plan;
- Outputs from other assurance providers; and

- Requirements as agreed with the council's external auditors.

The annual Internal Audit Plan is composed of the following:

- **Corporate Plan/Priority and Business Area Risk Based Audits**: Audits of systems, processes or tasks where the internal controls are identified, evaluated and confirmed through risk assessment process. The internal controls depending on the risk assessment are tested to confirm that they operating correctly. The selection of work in this category is driven by internal audit's and senior managers' risk assessment and may also include work in areas where the Council services are delivered in partnership with or by other organisations.

- **Key Financial Systems:** Audits of the Council's key financial systems on a continuous basis.

- **Probity Audit (schools/other establishments):** Audit of a single establishment. Compliance with legislation, regulation, policies, procedures or best practice is confirmed.

- **Computer Audit:** The review of ICT infrastructure and associated systems, software and hardware; including Shared Digital arrangements where applicable.

- **Contract and Procurement Audit:** Audits of the Council's procedures and processes for the letting and monitoring of contracts, including reviews of completed and current contracts.

- **Counter-Fraud and Ad-Hoc Work:** The in-house Corporate Anti-Fraud Team undertakes a programme of pro-active and reactive counter-fraud investigations. A contingency of audit days are also included in the annual audit plan to cover any additional work due to changes or issues arising in-year.

Follow-up

Internal Audit will evaluate the Council's progress in implementing audit recommendations against agreed targets for implementation. Progress will be reported to management and to the Corporate Committee on a quarterly basis. Where progress is unsatisfactory or management fail to provide a satisfactory response to follow up requests, Internal Audit will implement the escalation procedure as agreed with management.

Reporting

Internal audit reports the findings of its work in detail to local management at the conclusion of each piece of audit work and at the follow up stage. Summary reports are also provided to the Corporate Committee on a monthly basis and high level reports provided on a quarterly basis. This includes the Head of Internal Audit's annual report which contributes to the assurances underpinning the statutory Annual Governance Statement of the Council.

Internal Audit Plan 2017/18

The annual internal audit plan has been discussed and agreed with the Chief Executive; Senior Leadership Team; Statutory Officers' Group; Priority Owners; and nominated clients for the work. The plan and strategy are submitted to the Corporate Committee for final approval and any significant changes to the annual internal audit plan and/or the internal audit strategy will be reported during the year to the Corporate Committee for formal approval.

The table below sets out the internal audit work to be completed by the external contractor. The total number of days to be delivered excludes audit work that will be completed as part of the corporate anti-fraud team's work.

The work planned aims to provide coverage across the value protection and value added requirements of the Council. The internal audit service has focused its annual plan to align it with the identified key risks within the Corporate Plan in order to provide assurance across the Priority areas. Assurance on Priority 5 key risk areas will be provided in part via internal audit's annual audit plan delivered via Homes for Haringey and the counter-fraud work plan.

Audit area	Client	Quarter	Days
Corporate/Cross Cutting Risk Audits			
HR processes - IR35 implementation and exit payments	Assistant Director Transformation and Resources	1	10
Declaration of Interests	Assistant Director Transformation and Resources	2	10
Information governance – data protection and preparations for GDPR	Assistant Director Transformation and Resources	3	10
Information governance – data storage arrangements (electronic and physical)	Assistant Director Transformation and Resources	1	10
Sub-total – Corporate Risk Audits			**40**
Corporate Plan – Priority Risk Audits			
Priority 1 – Outstanding for all			
High Needs Block funding	Director of Children's Services	2	10
Looked after children/care leavers	Director of Children's Services	1	10
Early Help processes	Director of Children's Services	2	15
Children's Centres – safeguarding and financial processes	Director of Children's Services	3	12
No Recourse to Public Funds (including refugee/asylum seekers)	Director of Children's Services	4	10
School Admissions – policy and operational processes	Assistant Director for Schools and Learning		10
Haslemere Road Respite Centre	Assistant Director for Commissioning		10
Sub-total Priority 1			**77**
Priority 2 – Outstanding for all			
Pooled budgets – discharge to assess	Director of Adult Social Services	3	10
Osborne Grove	Director of Adult Social Services	1	10
Direct Payments	Director of Adult Social Services/ Assistant Director for	2	10

Audit area	Client	Quarter	Days
	Commissioning		
Community Alarm Service	Director of Adult Social Services	4	10
Safeguarding	Director of Adult Social Services	3	10
Reviews for independence	Director of Adult Social Services	4	10
Sub-total Priority 2			**60**
Priority 3 – Clean and Safe			
Capital and project expenditure and procurement processes	Assistant Director for Commercial & Operations	1	20
Highways – contractor invoicing and contractual compliance	Assistant Director for Commercial & Operations	2	10
Reactive maintenance	Assistant Director for Commercial & Operations	3	10
Bulk refuse collections – contractor performance	Assistant Director for Commercial & Operations	4	10
Operational Services – Budget allocation and management	Assistant Director for Commercial & Operations	3	12
Sub-total Priority 3			**62**
Priority 4 – Sustainable Housing Growth and Employment			
Haringey Development Vehicle – strategic partner/operating processes	Assistant Director for Regeneration	1-4	30
Estate Renewal – re-housing and payments	Assistant Director for Regeneration	4	10
Sub-total Priority 4			**40**
Corporate IT Audits			
Shared digital – contract management	Assistant Director Transformation and Resources	3	10
Shared digital – strategic and operational governance arrangements	Assistant Director Transformation and Resources	2	20
Project management processes	Assistant Director Transformation and Resources	2	10
Mosaic application	Assistant Director Transformation and Resources	1	10
ICON application upgrade	Assistant Director Transformation and Resources	4	10
Sub-total – Corporate IT Audits			**60**
Contract and Procurement Audit			
Provision of pharmacies enhanced service (framework)	Director of Public Health		10
Master vendor for supply of agency staff	Assistant Director Transformation and Resources		10
Contract extensions/waivers	Assistant Director for Commercial & Operations		12
Operational procurement processes	Assistant Director for Commercial & Operations	3	12
Sub-total – Contract Audits			**44**
Key Financial Systems (KFS)			
Strategic Financial Management &	Deputy s151 Officer	1-4	15

Audit area	Client	Quarter	Days
Budgetary Control			
Cash Receipting	Deputy s151 Officer	1-4	12
Treasury Management	Deputy s151 Officer	1-4	12
Accounting & General Ledger	Deputy s151 Officer	1-4	12
Pension Fund Investment	Deputy s151 Officer	4	5
Accounts Receivable (Sundry Debtors)	Assistant Director – SSC	1-4	15
Accounts Payable (Creditors)	Assistant Director – SSC	1-4	15
Housing Benefits	Assistant Director – SSC	1-4	15
Council Tax	Assistant Director – SSC	1-4	15
NNDR	Assistant Director – SSC	1-4	15
Payroll	Assistant Director – SSC	1-4	15
Teachers' Pensions contributions (Grant certification requirement)	Deputy s151 Officer	1	5
Sub-total – Key Financial Systems			**151**
School Audits Risk Based Programme			
Primary Schools			
Alexandra	School Head teacher	TBC	5
Bounds Green	School Head teacher	TBC	5
Bruce Grove	School Head teacher	TBC	5
Chestnuts	School Head teacher	TBC	5
Coldfall	School Head teacher	TBC	5
Crowland	School Head teacher	TBC	5
Lancasterian	School Head teacher	TBC	5
Mulberry	School Head teacher	TBC	5
Rhodes Avenue	School Head teacher	TBC	5
St Martin of Porres RC	School Head teacher	TBC	5
St Mary CE	School Head teacher	TBC	5
St Paul's RC	School Head teacher	TBC	5
Stamford Hill	School Head teacher	TBC	5
Tiverton	School Head teacher	TBC	5
Welbourne	School Head teacher	TBC	5
Infant Schools			
Rokesly Infants	School Head teacher	TBC	5
St Peter-in-Chains RC Infants	School Head teacher	TBC	5
Secondary Schools			
Hornsey School for Girls	School Head teacher	TBC	6
Follow up of 2016/17 school audits	School Head teachers	TBC	30
Sub-total – School Audits			**121**
Follow up audits 2016/17 audits			30
Admin and Management			35
Contingency			50
Total – Contractor delivered days			**770**

Report for: Corporate Committee – Tuesday 21 March 2017

Item number: **11**

Title: Housing Benefit Subsidy: 2015-16 Grant Claim – report on actions taken following external audit of subsidy claim

Report Authorised by : Tracie Evans : Chief Operating Officer

Lead Officer(s): Mark Rudd : Assistant Director Shared Services
Amelia Hadjmichael : Head of Benefits

Ward(s) affected: Not Applicable

Report for Key/ Non Key Decision: Not Applicable

1. Describe the issue under consideration

1.1 The external auditors update report to Corporate Committee on Tuesday 31 January 2017 highlighted errors in the processing of Housing Benefit Claims. These errors could impact the amount of subsidy received by the Council, could have a significant impact on Council finances and have a detrimental impact on the claimant.

1.2 Members of Corporate Committee requested information on the level of errors over previous years for comparison; that the Committee can consider the action plan being implemented by Officers to address the errors; the steps being taken to address the backlog of work and ensure adequate resources are available to address issues identified by external auditors.

2. Cabinet Member Introduction

2.1 Not Applicable

3. Recommendations

3.1 That Members of the Committee note the contents of this report.

3.1 That Members of the Committee note the on-going work now being undertaken by Officers to address the concerns of the external auditors.

4. Reasons for decision

4.1 Not Applicable

5. Alternative options considered

5.1 Not Applicable

6. Background information

6.1 The external auditors BDO presented a report to Corporate Committee on 31 January 2017 following the audit of the Housing Benefit Grant Claim and Certification. The auditors raised concerns over the number of errors identified in the course of their work that could potentially result in a £1.5m reduction in the amount on money the Council could claim back from Department for Work and Pensions (DWP).

6.2 Following the report Committee Members requested information on the level of errors over previous years for comparison. The Committee requested that they consider the detailed action plan being implemented by Officers to address the errors as well as the steps being taken to address the backlog of work and ensure adequate resources are available to address issues identified by external auditors.

6.3 To put into context the workload of the Council's Benefits team during 2015/16, the caseload is 34,000 housing benefit claims, and 28,000 council tax reduction paying out £273m in housing benefit. During this period, the Council received 8,837 new benefits claims, assessed 150,379 notifications of change of circumstances, 6,433 other types of notification relating to residents housing benefit, received 178,371 related documents and an additional 58,483 telephone logs direct from Customer Services.

6.4 The Council also processes data files from DWP regarding customer's changes in circumstances. In 2015/16 the Council received approximately 45,000 cases to review. In addition to this the team also receive data files from DWP and HM Revenues & Customs (HMRC) as part of a joint fraud & error iniative, where resident data does not match data held by the Council e.g. level of earnings, claims are automatically suspended and the Council has to reassess each case.

6.5 Over the last few years the work of the Benefits team has changed significantly. The impacts of a more transient community within the Borough, increases in houses of multiple occupancy, welfare reform and an increase in residents working more flexibly e.g. zero contract hours, part-time hours working, has meant more 'high risk' claims need to be assessed by the Council.

6.6 Average time to process new claims and change of circumstances over the past three years is shown below:

	2013/14	2014/15	2015/16
New Claims	40.39 days	19.48 days	17.76 days
Change in Circumstances	15.60 days	11.77 days	11.84 days

6.7 The level of errors identified by the auditors in the same three year period is shown below:

	2013/14	2014/15	2015/16
Number of Errors	161	143	162
Number of transactions	140,702	153,881	157,644
£value of subsidy loss	-£104,770	+£841,032	-£1,550,482 *

***** Note: subsidy loss for 2015/16 has yet to be finalised with DWP

6.8 Of the errors identified in the 2015/16 audit, it should be noted that 41% of the errors were processed in prior years and that 50% of staff members involved in the processing of those errors have now left the Council.

6.9 The audit also recommended that the Council seek and recruit experienced housing benefit staff to ensure the quality of work processed is of a high standard. At the time of drafting this report, there are 13 vacancies within the Benefits team. This has led to a backlog of work. The Council "competes" for experienced staff with other London Boroughs and recruitment and retention of staff has always been difficult. In the past, the Council has relied upon temporary agency staff to fill vacancies; often using inexperienced workers, which has led to processing errors. This practice has now stopped and a more rigorous programme of recruitment was implemented approximately 12 months ago. This includes a rolling recruitment campaign and a much more robust selection process for staff including assessments of literacy and numeracy skills.

6.10 The Committee should note that due to the existing difficult recruitment marketplace and the lack of experienced officers available, the Benefits team are looking at a number of alternative recruitment options including use of apprentices to be trained into the role (full training takes between 6 – 9 months) and using permanent home workers located further away from the Borough.

6.11 Specific action has already been taken by the Head of Benefits to address the current backlog of work. Additional staff have been recruited to specifically target the backlog as well as use of more experienced staff working additional hours to reduce case volumes.

6.12 Following the audit the Head of Benefits prepared a management response summarised as an appendix to BDO Grant Claims and Returns Certification for the year ended 31 March 2016 dated 16 January 2017. See Appendix A.

6.13 The Head of Benefits in conjunction with senior officers within Benefits team have prepared a detailed action plan to address the concerns of the audit. The action plan also highlights action being taken to address the current backlog of work and ensure adequate resources are available within the department. See Appendix B.

6.14 The Council is currently awaiting the formal response from DWP but have already started further sampling across the areas of concern identified by the auditors. Whilst this work is on-going, further sampling has identified that the percentage of errors noted by the external auditors is high and following discussions with DWP, this potential loss of subsidy will reduce. At the time of drafting this report, this work is on-going and no final position has been agreed with the DWP.

7. Contribution to strategic outcomes

7.1 Not Applicable

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

8.1 Finance and Procurement

8.1.1 Not Applicable

8.2 Legal

8.2.1 Not Applicable

8.3 Equality

8.3.1 Not Applicable

9. Use of Appendices

9.1 A - Extract: BDO Grant Claims & Returns Certification 2015 / 16 Action Plan

9.2 B - Benefits Team Action Plan

Appendix A – Extract: BDO Grant Claims & Returns Certification 2015 / 16 Action Plan:

APPENDIX: 2015/16 ACTION PLAN

CONCLUSIONS FROM WORK	RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPON SIBILITY	TIMING
A significant number of errors were identified with the benefit calculations for some claimants. This resulted in a number of cases where Housing Benefit was paid at an incorrect rate.	Reinforce the key messages from the subsidy workshops carried out in December 2015. Re-visit the results of checking that is being undertaken on assessors work to reinforce the messages about the errors that are identified. Carry out regular checking of a number of claims to ensure that: • Income has been input correctly • Overpayments have been correctly classified	High	Throughout the year we have carried out a number of actions to reduce errors. In July 16 we held common error workshops with each processing team, the sessions covered analysis of recent errors . Each officer undertook a test to confirm their understanding. As a result of this audit, we will review the types of errors made and target additional training for all staff as required. All officers are performance managed and have My conversation meetings with their line manager on a regular basis and every error identified is discussed in detail. Where persistent errors occur action is taken. Monthly Finance & Management meetings review QA and as a result of analysis of errors, specific actions are put in place to reduce errors as required.	Jim Brady	On-going March onwards
	Perform additional checks on the assessments that are undertaken by new and temporary staff and staff with limited experience in completing these assessments.	High	We have been reducing reliance of temporary staff and where possible, permanent officers are now being recruited. We already have different levels of QA in place for different members of staff: 100% for new starters, 30% for staff with high error rates and 4% random checking.	Jim Brady	Ongoing
	Check a sample of claims during the period from April 2016 - March 2017 in advance of closing the Benefits system for the year and producing the subsidy claim. Ensure that any amendments required to cases are made before the subsidy claim form is run.	High	Throughout the year we target areas of work that are high risk and have been identified through QA and subsidy monitoring. Following this audit, we will revisit the checking regime to ensure the checking targets the most appropriate areas of error / risk.	Helen Hili / Claire Maunders	February 17
	Seek to retain and recruit experienced housing benefit staff that are more proficient at delivering accurate case processing.	High	There has been a rolling recruitment programme in place since October 15 . We compete for staff with neighbouring Boroughs and recruitment of experienced officers is very difficult. We have appointed 9 new Service Officers this year and will continue recruitment until all vacancies are filled. Staff are being fully trained and continue to receive support and coaching from experienced officers.	Helen Hili	Ongoing

Appendix B – Benefits Team Action Plan:

No	Audit Recommendation	Management Actions
1	Reinforce the key messages from the subsidy workshops carried out in December 2015 Re-visit the results of checking that is being undertaken on assessors work to reinforce the message about errors that are identified	Following the audit, a review is being undertaken of the errors identified and where appropriate, further training will be carried out or the training programme amended to ensure any area of concern is addressed The Head of Benefits is reviewing the current arrangements within the department for Quality Checking and Assurance to ensure it meets the existing needs of the department. A number of alternatives are being reviewed including using a third-party provider to carry out the quality checking
2	Perform additional checks on the assessments that are undertaken by new and temporary staff, and staff with limited experience in completing these assessments	Different levels of quality monitoring have been implemented for less experienced staff as follows: 100% New Starters, 30% for staff with high error rates and 4% random checking All officers receive regular feedback from Quality Assurance team on any errors identified The Head of Benefits receives a monthly report on the findings of the Quality Assurance team and meets with all Service Managers on a monthly basis to discuss quality issues All staff have monthly Performance Appraisals (My Conversation) were performance and error rates are discussed. We staff performance falls below the desired level, appropriate action is taken
3	Check a sample of claims during the period from April 2016 to March 2017 in advance of the closing of the benefits system. Ensure any amendments are made before the subsidy claim form is run	A regime of monthly checking of quality is already in place. Following the audit, the Head of Benefits has undertaken a review of the checking regime to ensure those areas of weakness identified by the auditors are being targeted

		Additional experienced staff have been allocated to quality monitoring. A 100% check is now undertake of all overpayments and an additional Service Manager will support Quality Assurance Team A continuous internal audit programme is being undertaken which will help identify areas of weakness more quickly and allow Benefits Managers to target training in a more timely manner A sample check for 2016 / 17 has been commissioned through the Councils expert benefits consultant
4	Seek to retain and recruit experienced housing benefit staff that are more proficient at delivering accurate case processing	Rolling recruitment campaign in place including implementation of a much more robust selection process for staff including assessments of literacy and numeracy skills Review alternative recruitment options including use of apprentices to be trained as Service Officers and use of permanent homeworkers based around the UK Review options for use of additional third-party provider support at peak times to help clear backlog of work and support periods of high customer contact

LONDON BOROUGH OF HARINGEY

AUDIT PLAN TO THE CORPORATE COMMITTEE

Audit for the year ending 31 March 2017

10 March 2017

BDO

CONTENTS

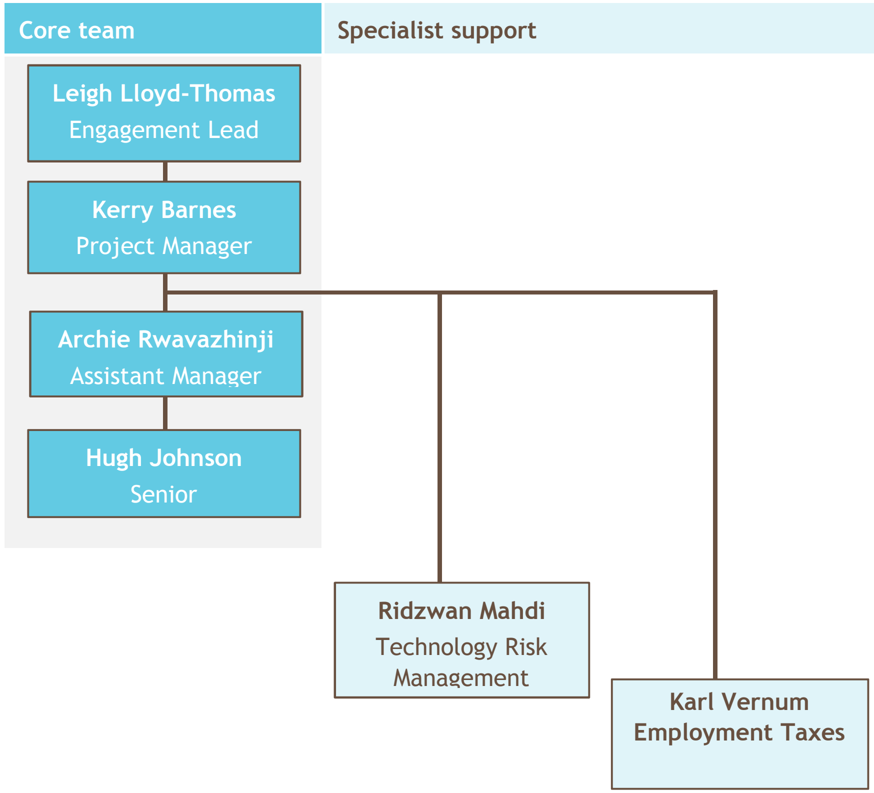
INTRODUCTION

PURPOSE AND USE OF OUR REPORT

The purpose of this report is to highlight and explain the key issues which we believe to be relevant to the audit of the financial statements of the authority and consolidated entities (together the 'Group') and use of resources of the authority for the year ending 31 March 2017. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two-way communication throughout the audit process. Planning is an iterative process and our plans, reflected in this report, will be reviewed and updated as our audit progresses.

This report has been prepared solely for the use of the Corporate Committee. In preparing this report, we do not accept or assume responsibility for any other purpose, or to any other person, except when expressly agreed by our prior written consent. If others choose to rely on the contents of this report, they do so entirely at their own risk.

YOUR BDO TEAM



Name	Contact details	Key responsibilities
Leigh Lloyd-Thomas **Engagement Lead**	Tel: 020 7893 2616 leigh.lloyd-thomas@bdo.co.uk	Oversee the audit and sign the audit report
Kerry Barnes **Project Manager**	Tel: 020 7893 3837 kerry.l.barnes@bdo.co.uk	Management of the audit
Archie Rwavazhinji **Assistant Manager**	Tel: 014 7332 0700 archford.rwavazhinji@bdo.co.uk	Day to day management and supervision of the audit
Hugh Johnson **Senior**	Tel: 020 7893 2551 hugh.johnson@bdo.co.uk	Day to day supervision of the on-site audit
Ridzwan Mahdi **Technology Risk Assistant Manager**	Tel: 020 7893 3126 ridzwan.x.mahdi@bdo.co.uk	Manage IT review for audit purposes
Karl Vernum **Employment Tax Manager**	Tel: 020 7893 3549 karl.vernum@bdo.co.uk	Manage employment tax review for audit purposes

Leigh is the engagement lead and has the primary responsibility to ensure that the appropriate audit opinion is given on the financial statements and use of resources.

In meeting this responsibility, he will ensure that the audit has resulted in obtaining sufficient and appropriate evidence to provide reasonable, but not absolute, assurance that:

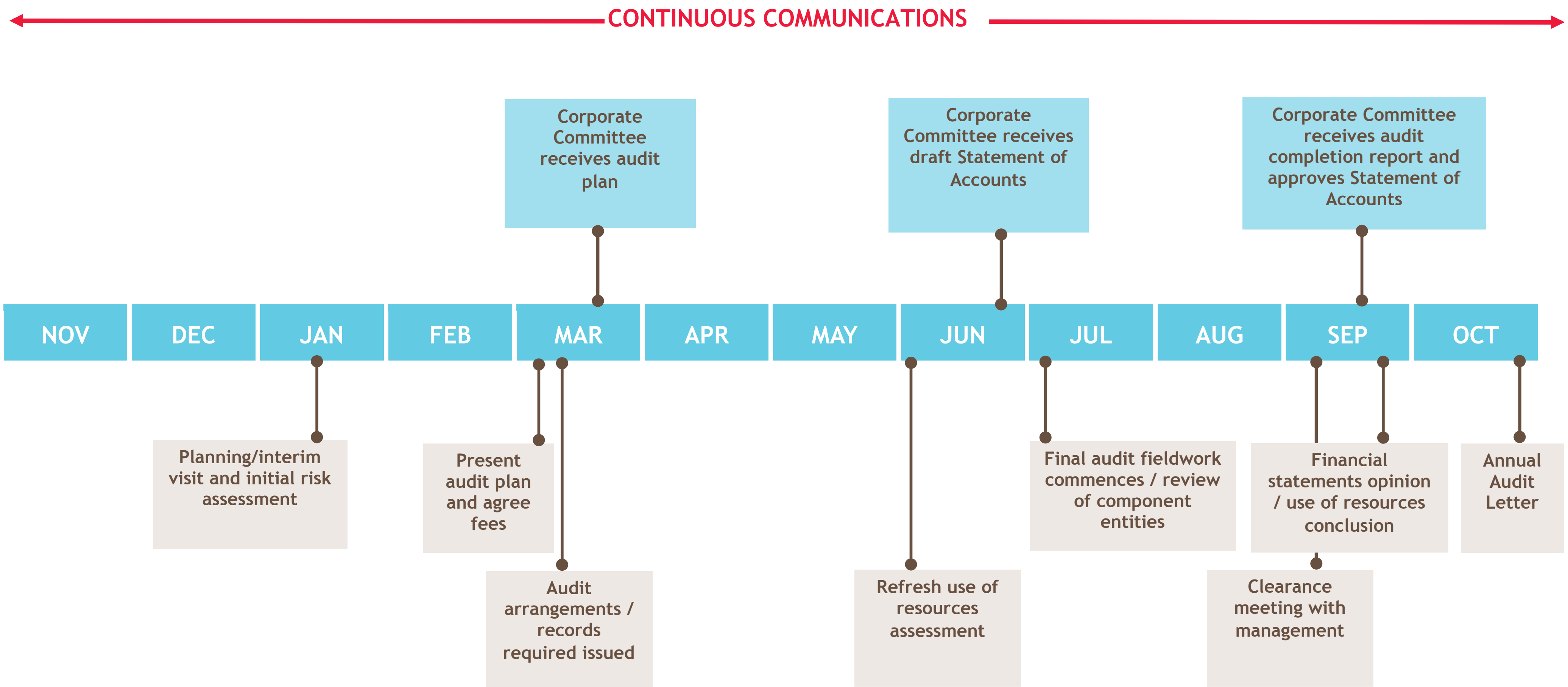
- the financial statements are free from material misstatement, whether due to fraud or error
- the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

He is responsible for the overall quality of the engagement.

ENGAGEMENT TIMETABLE

TIMETABLE

The timeline below identifies the key dates and anticipated meetings for the production and approval of the audited financial statements and completion of the use of resources audit.



AUDIT SCOPE AND OBJECTIVES

SCOPE AND OBJECTIVES

Our audit scope covers the audit in accordance with the NAO Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the NAO.

To form an opinion on whether:

FINANCIAL STATEMENTS		OTHER INFORMATION	WGA CONSOLIDATION	USE OF RESOURCES
1 The financial statements give a true and fair view of the financial position of the group and authority and its expenditure and income for the period in question.	2 The financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.	3 Other information published together with the audited financial statements is consistent with the financial statements (including the governance statement).	4 The return required to facilitate the preparation of WGA consolidated accounts is consistent with the audited financial statements.	5 The authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

ADDITIONAL POWERS AND DUTIES	
6 Where appropriate: To consider the issue of a report in the public interest. To make a written recommendation to the authority.	7 To allow electors to raise questions about the accounts and consider objections. Where appropriate, to apply to the court for a declaration that an item of account is contrary to law. Where appropriate, to consider whether to issue an advisory notice or to make an application for judicial review.

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MATERIALITY

GROUP AND COMPONENT MATERIALITY

	MATERIALITY	CLEARLY TRIVIAL THRESHOLD
Group	£16,700,000	£500,000
Significant components:		
• Council	£16,600,000	£500,000
Non-significant components:		
• Homes for Haringey Ltd	n/a	n/a
• Alexandra Park and Place Charitable Trust	n/a	n/a

Please see Appendix I for detailed definitions of materiality and triviality.

Planning materiality for the group and the Council has been based on 1.5% of the budgeted gross expenditure. At this stage, the figure is based on the average gross expenditure over the past two years. This will be revisited when the draft financial statements are received for audit.

Component materiality is set for those entities where component auditors perform an audit or a review for purposes of the group audit. The local materiality applied for the statutory audit of the component financial statements, where required, cannot exceed the component materiality and is likely to be lower than the component materiality set as part of the group audit. We understand that the component auditor has agreed materiality at level significantly below our Group materiality level.

The clearly trivial amount is based on 3% of the materiality level of both the Council and the group.

Our usual benchmark for clearly trivial misstatements is 2% of materiality (£334,000). Management has stated that, in its view, misstatements (other than fraud) below £500,000 would be considered as trivial in terms of the Group and Council's gross expenditure. Members of the Corporate Committee should draw to our attention any concerns in this matter.

OVERALL AUDIT STRATEGY

We will perform a risk based audit on the group and authority's financial statements and the authority's use of resources

This enables us to focus our work on key audit areas.

Our starting point is to document our understanding of the group, authority and other component entities' businesses and the specific risks it faces. We discussed the changes to the businesses and management's own view of potential audit risk during our planning visit in order to gain an understanding of the activities and to determine which risks impact on our audit. We will continue to update this assessment throughout the audit.

For the financial statements audit, we also confirm our understanding of the accounting systems in order to ensure their adequacy as a basis for the preparation of the financial statements, group-wide controls and the consolidation process, and that proper accounting records have been maintained.

For the use of resources audit, we consider the significance of business and operational risks insofar as they relate to 'proper arrangements', including risks at both sector and authority-specific level, and draw on relevant cost and performance information as appropriate.

We then carry out our audit procedures in response to audit risks.

Approach to components of the group financial statements

Our approach is designed to ensure we obtain the requisite level of assurance across the whole group.

We are aware that there is some uncertainty whether local authority controlled companies are able to take advantage of the size and threshold exemptions for audit or whether the requirement for audit remains in place where the authority itself is preparing consolidated accounts. It is our understanding that local authority controlled companies are not able to take advantage of the audit exemption.

Total coverage is expected to be as shown opposite.

SCOPE	EXPENDITURE COVERAGE 2016/17	NET ASSETS 31/3/17	EXPENDITURE COVERAGE 2015/16	NET ASSETS 31/3/16
Full scope procedures	£TBC	£TBC	£1,054m	£1,111m
Desktop review	£TBC	£TBC	£8m	£78m
Total	**£TBC**	**£TBC**	**£1,062m**	**£1,189m**

Coverage for 2016/17 will be updated once draft financial statements have been provided.

OVERALL AUDIT STRATEGY
Group matters

COMPONENT NAME	% GROUP EXPENDITURE	% GROUP NET ASSETS	COMPONENT AUDITOR	OVERVIEW OF WORK TO BE PERFORMED	OVERVIEW OF THE NATURE OF OUR PLANNED INVOLVEMENT IN THE WORK PERFORMED BY THE COMPONENT AUDITOR
Full scope procedures:					
Council	>99%	>93%	BDO UK	Code audit of the financial statement prepared under CIPFA Code of Practice on Local Authority Accounting.	Undertaken by the group audit team
Desktop review:					
Homes for Haringey Ltd	<1%	<(2%)%	PwC LLP	Analytical review of consolidation pack / financial statements prepared by the component entity assessed against expectations and prior year amounts. Specific review of the calculation of the pension fund liability prepared by the actuary and agreement of management fee income against the Council's expenditure.	N/A
Alexandra Park and Palace Charitable Trust	<1%	<7%	Deloitte LLP	Analytical review of consolidation pack / financial statements prepared by the component entity assessed against expectations and prior year amounts. Review of the valuation of Alexandra Palace required for the inclusion in the group financial statements, not included at valuation in the Charity's financial statements.	N/A

OVERALL AUDIT STRATEGY

Risks and planned audit responses

For the financial statements audit, under International Standard on Auditing 315 "Identifying and assessing the risks of material misstatement through understanding the entity and its environment", we are required to consider significant risks that require special audit attention.

In assessing a risk as significant, we exclude the effects of identified controls related to the risk. The ISA requires us at least to consider:

- Whether the risk is a risk of fraud
- Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention
- The complexity of transactions
- Whether the risk involves significant transactions with related parties
- The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty
- Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

For the use of resources audit, the NAO has provided information on potential significant risks such as:

- Organisational change and transformation
- Significant funding gaps in financial planning
- Legislative or policy changes
- Repeated financial difficulties or persistently poor performance
- Information from other inspectorates and review agencies suggesting governance issues or poor service performance.

We consider the relevance of these risks to the authority in forming our risk assessment and audit strategy.

Internal audit

We will ensure that we maximise the benefit of the overall audit effort carried out by internal audit and ourselves, whilst retaining the necessary independence of view.

We understand that internal audit reviews have been undertaken across a range of accounting systems and governance subjects. We will consider these reports as part of our audit and whether to place any reliance on internal audit work as evidence of the soundness of the control environment.

Fraud risk assessment

We have discussed with management its assessment of the risk that the financial statements may be materially misstated due to fraud and the processes for identifying and responding to the risks of fraud.

Management believe that the risk of material misstatement due to fraud in the financial statements is low. Frauds identified in recent years include:

- Ineligible applications for right to buy discounts on Council properties
- Housing benefit and local council tax support claimants
- Misuse of public assets but without financial impact, such as tenancy sub-letting and blue badges.

Management consider that controls in operation would prevent or detect material fraud and the amounts lost due to fraud and misrepresentation in recent years has not been significant. We are informed by management that there have not been any cases of significant or material fraud to their knowledge.

The Corporate Committee has oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks. This is discharged through the reviews undertaken by internal audit and the Counter Fraud team.

To corroborate the responses to our inquiries of management, please let us know if there are any other actual, suspected or alleged instances of fraud of which you are aware.

KEY AUDIT RISKS AND OTHER MATTERS

Key: ■ Significant risk ■ Normal risk

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	**DESCRIPTION**	**PLANNED AUDIT RESPONSE**	**EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE**
Management override	The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud. Under auditing standards, there is a presumed significant risk of management override of the system of internal controls.	We will: • Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. • Review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. • Obtain an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.	Not applicable.
Revenue recognition	Under auditing Standards there is a presumption that income recognition presents a fraud risk. For local authorities, the risks can be identified as affecting the existence of income. In particular, we consider there to be a significant risk in respect of the existence (recognition) of revenue and capital of grants that are subject to performance and / or conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES). We also consider there to be a significant risk in relation to the existence of fees and charges recorded in the CIES.	We will test a sample of grants subject to performance and / or conditions to confirm that conditions of the grant have been met before the income is recognised in the CIES. We will test a sample of fees and charges to ensure income has been recorded in the correct period and that all income that has been recorded should have been recorded.	Government grant funding will be agreed to information published by the sponsoring Department.

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KEY AUDIT RISKS AND OTHER MATTERS
Continued

AUDIT RISK AREAS – FINANCIAL STATEMENTS			
RISK	**DESCRIPTION**	**PLANNED AUDIT RESPONSE**	**EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE**
Land, buildings, dwellings and investment property valuations	Local authorities are required to ensure that the carrying value of land, buildings, dwellings and investment properties are not materially different to existing use value for operational assets, or fair value for surplus assets and investment properties at the balance sheet date. The Council engage with Wilks Head and Eve (WHE) to carry out an annual valuation. The valuation is performed at the start of the year and is updated at the end of the year for any significant movements. There is a risk over the valuation of land, buildings, dwellings and investment properties where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at year-end.	We will review the instructions provided to the valuer and review the valuer's skills and expertise in order to determine if we can rely on the management expert. We will confirm that the basis of valuation for assets valued in year is appropriate based on their usage. We will confirm that an instant build modern equivalent asset basis has been used for assets valued at depreciated replacement cost. We will review valuation movements against indices of price movements for similar classes of assets and follow up valuation movements that appear unusual against indices.	We will review independent data that shows indices and price movements for classes of assets against the valuation movements applied by the Council.
Housing Revenue Account (HRA) asset componentisation	Historically, the Council has not componentised its HRA dwellings on the grounds that this does not have a material impact on the financial statements. In the prior year, we applied benchmark component allocations and useful lives, and reported a potential significant (but not material) understatement of the depreciation charge. We understand that the Council is considering increasing the percentage allocation of the overall value as land (not depreciated) and reducing the allocated value to the buildings this year. There is a risk that the revised allocation of the overall value between land and buildings, and not further componentising the buildings, may result in a misstatement of the depreciation charge for HRA dwellings.	We will review the assumptions and any estimates used to underpin the basis of the HRA land and building component split and confirm whether the split is appropriate for calculating HRA asset depreciation. Where a change in estimate results in a significant change in the depreciation charge for the year, management will be required to explain this in the financial statements.	We will review DCLG housing valuation guidance for a reasonable range for allocation of components and estimated useful economic lives and the life-cycle replacement capital programme for the HRA.

KEY AUDIT RISKS AND OTHER MATTERS
Continued

AUDIT RISK AREAS – FINANCIAL STATEMENTS			
RISK	**DESCRIPTION**	**PLANNED AUDIT RESPONSE**	**EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE**
Minimum Revenue Provision (MRP) charge	Regulations require that a local authority “shall determine for the current financial year an amount of minimum revenue provision which it considers to be prudent”. Guidance issued by DCLG suggest four ready-made options for calculating MRP. The options are those likely to be most relevant for the majority of authorities but other approaches are not meant to be ruled out, provided they are fully consistent with the statutory duty to make prudent provision. Authorities must always have regard to the guidance, but having done so, may in some cases consider that a more individually designed MRP approach is justified. That could involve taking account of detailed local circumstances, including specific project timetables and revenue-earning profiles. In order to address current austerity measures within the local governance economy and not to be ‘overly prudent’ when setting aside funds for the future, the Council is considering a change to their current calculation of MRP and a number of proposals are being reviewed to ensure that appropriate calculations are used for different types of capital expenditure financed from borrowing or credit arrangements. It has been proposed that a change in the MRP calculation will take effect from 1 April 2016. There is a risk that the Council may not apply a prudent MRP provision resulting in insufficient funds being set aside for future debt repayments to cover current capital expenditure.	We will review the different options the Council has used to calculate MRP charges and consider whether they are prudent in respect of future debt requirements and funding availability. We have provided some initial commentary to management on the draft MRP strategy, and noted some concerns over the amounts being set aside where using the ‘annuity’ provision method and a mismatch between PFI grant received and the MRP provision for the PFI assets.	Not applicable.

KEY AUDIT RISKS AND OTHER MATTERS
Continued

AUDIT RISK AREAS – FINANCIAL STATEMENTS			
RISK	**DESCRIPTION**	**PLANNED AUDIT RESPONSE**	**EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE**
Bank reconciliation	As part of the prior year audit we reported the difficultly in testing reconciling items within the bank reconciliation. We reported that a large number of reconciling items within the bank reconciliation had cleared on the bank statement but were netted off the cash book on different clearing codes. This made it very difficult to trace the items and determine if they had been accounted for correctly. If the Council is unable to determine the reconciling items to verify that these are appropriate timing differences, then there may be a risk that the cash balance is materially misstated.	We will obtain the year-end bank reconciliation for each bank account and test a sample of reconciling items to ensure that the transactions have been accounted for the in the correct period of accounts. If reconciling items cannot be identified we will then carry out alternative audit procedures to address this audit risk.	Not applicable.
Changes in presentation of the financial statements	The Code requires a change to the presentation of some areas of the financial statements. This includes: • Change to the format of the Comprehensive Income and Expenditure Statement (CIES) • Change to the format of the Movement in Reserves Statement (MIRS) • New Expenditure and Funding Analysis (EFA) note • Change to the Segmental Reporting note • New Expenditure and Income analysis note. These changes will require a restatement to the 2015/16 CIES. There is a risk that these presentational changes are not correctly applied in the financial statements.	We will review the draft financial statements and check these against the CIPFA Disclosure Checklist to ensure that all of the required presentational changes have been correctly reflected within the financial statements. We will confirm that the analysis by service in the CIES is consistent with the internal reporting within the Council. We will review the restatement of the comparative 2015/16 information to ensure that this is presented consistently with the current year basis.	Not applicable.

KEY AUDIT RISKS AND OTHER MATTERS
Continued

AUDIT RISK AREAS – FINANCIAL STATEMENTS			
RISK	**DESCRIPTION**	**PLANNED AUDIT RESPONSE**	**EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE**
Consideration of related party transactions	We need to consider if the disclosures in the financial statements concerning related party transactions are complete and accurate, and in line with the requirements of the accounting standards.	We will document the related party transactions identification procedures in place and review relevant information concerning any such identified transactions. We will discuss with management and review councillors and Senior Management declarations to ensure there are no potential related party transactions which have not been disclosed. This is something we will require you to include in your management representation letter to us.	Companies House searches for undisclosed interests.
Pension liability assumptions	The net pension liability comprises the Council's and Homes for Haringey Limited's share of the market value of assets held in the London Borough of Haringey Pension Fund and the estimated future liability to pay pensions. An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability. There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.	As the auditors of the pension fund, we will review the controls for providing accurate membership data to the actuary. We will review the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.	We will use the PwC consulting actuary report provided to auditors for the review of the methodology of the actuary and reasonableness of the assumptions.

KEY AUDIT RISKS AND OTHER MATTERS
Continued

AUDIT RISK AREAS – FINANCIAL STATEMENTS			
RISK	**DESCRIPTION**	**PLANNED AUDIT RESPONSE**	**EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE**
Allowance for non-collection of receivables	The Council's bad and doubtful debt impairment provision on aged debt is determined for each income stream using available collection rate data. The significant provisions include council tax arrears, non-domestic rates arrears, housing benefit overpayments, housing rent arrears and parking PCNs. There is a risk that the provisions may not accurately reflect collection rates based on age or debt recovery rates for that income stream.	We will review the provision model for significant income streams and debtor balances to assess whether it appropriately reflects historical collection rates by age of debt or arrears.	Not applicable.

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KEY AUDIT RISKS AND OTHER MATTERS
Continued

AUDIT RISK AREAS – USE OF RESOURCES			
RISK	**DESCRIPTION**	**PLANNED AUDIT RESPONSE**	**EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE**
Sustainable finances	At month 9, the Council projected a full-year revenue deficit of £21 million for year. Significant overspend exists in demand-led areas including: Adults (£12.5 million), Children's (£5.7 million) and Temporary Accommodation (£7.4 million). These areas represent the Council's most acute services and where demand for these services is outstripping the Council's ability to reduce spend or increase income at a pace to manage risks and deliver a balanced budget. A number of mechanisms have been put in place to manage cost/demand-led pressures that focus on the acceleration of transformation activities and in-year cost reductions. The update to the Medium Term Financial Strategy (MTFS) covers a five year period from 2017/18 to 2021/22. This is based on the finance settlement announced in December 2016 (fixed for four years until 2019/20), and currently shows a funding deficit of £45.6 million over the five years, with a residual shortfall of £22 million and which assumes savings of £23.6 million. The Strategy has taken into account a council tax freeze grant for 2017/18 plus a 3% increase in the council tax precept to contribute to adult social care funding. The increase in the precept is expected to raise £2.7 million but adult social care overspends are currently forecast at £12 million. For 2017/18 the £8.8 million projected deficit will be funded from use of reserves in order to balance the budget. Identifying the required level of savings in the coming years will be a significant challenge and is likely to require difficult decisions around service provision and alternative delivery models.	We will review the assumptions used in the Medium Term Financial Strategy and assess the reasonableness of the cost pressures and the amount of Government grant reductions applied. We will monitor the delivery of the budgeted savings in 2016/17 and the plans to reduce services costs and increase income from 2017/18. We will also review the strategies to close the budget gap in the coming years.	Not applicable.

KEY AUDIT RISKS AND OTHER MATTERS
Continued

AUDIT RISK AREAS – USE OF RESOURCES			
RISK	**DESCRIPTION**	**PLANNED AUDIT RESPONSE**	**EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE**
Haringey Development Vehicle (HDV)	In November 2015, Cabinet approved the business case and procurement process for the establishment of a Local Asset Backed Vehicle (LABV) to assist the Council in its housing and economic regeneration objectives. The LABV would be a joint venture (50/50 partnership) between the Council and an Investment Partner in which Council owned sites would be developed with the assistance of matched equity funding from the Investment Partner. The Council has recently completed the procurement exercise for its Investment Partner and a preferred bidder was recommended at the February 2017 Cabinet meeting. After completing the initial feasibility review of the project the Council has identified significant governance issues such as concerns over democratic accountability, transparency and contingency plans. As a result of the governance issues identified the HDV plans have been halted until further scrutiny work has been carried out.	We will review the work undertaken by the Council to address the issues identified and that appropriate plans around governance, performance management and risk management are put in place.	Not applicable.

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INDEPENDENCE

INDEPENDENCE

Under Auditing and Ethical Standards, we are required as auditors to confirm our independence to 'those charged with governance'. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate the Corporate Committee as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to have a bearing on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that engagement leads are made aware of any matters which may reasonably be thought to bear on the firm's independence and the objectivity of the engagement lead and the audit staff. This document considers such matters in the context of our audit for the period ended 31 March 2017.

We have not identified any potential threats to our independence as auditors. We have not provided any non audit services.

We confirm that the firm complies with the Financial Reporting Council's Ethical Standards for Auditors and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff is not impaired. These policies include partner and manager rotation. The table be,ow sets out the length of involvement of key members of the audit team.

Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

ENGAGEMENT TEAM ROTATION

SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED
Leigh Lloyd-Thomas - Engagement lead	2
Kerry Barnes - Project manager	1

ENGAGEMENT QUALITY CONTROL REVIEWER

NUMBER OF YEARS INVOLVED
1

FEES

FEES SUMMARY

Our proposed fees, excluding VAT, for the year ending 31 March 2017 are:

	2016/17 £	2015/16 £
Code audit fee	206,475	206,475
Certification fee (Housing benefits subsidy)	38,223	33,190
Total audit and certification fees	**244,698**	**239,665**
Fees for audit related services	0	0
Fees for non audit services	0	0
TOTAL FEES	244,698	239,665

Fee invoices are raised as set out below, following which our firm's standard terms of business state that full payment is due within 14 days of receipt of invoice:

- Instalment 1 £103,237.50 in July 2016
- Instalment 2 £103,237.50 in January 2017
- Certification of the housing benefits subsidy claim will be billed on completion of the work.

Our fee is based on the following assumptions

The complete draft financial statements and supporting work papers will be prepared to a standard suitable for audit. All balances will be reconciled to underlying accounting records.

Key dates will be met, including receipt of draft accounts and working papers prior to commencement of the final audit fieldwork.

We will receive only one draft of the Statement of Accounts prior to receiving the final versions for signing.

Within reason, personnel we require to hold discussions with will be available during the period of our on-site work (we will set up meetings with key staff in advance).

APPENDIX I: MATERIALITY

CONCEPT AND DEFINITION

- The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.
- We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.
- Materiality therefore has qualitative as well as quantitative aspects and an item may be considered material, irrespective of its size, if it has an impact on (for example):
  - Narrative disclosure e.g. accounting policies, going concern
  - Instances when greater precision is required (e.g. senior management remuneration disclosures).
- International Standards on Auditing (UK & Ireland) also allow the auditor to set a lower level of materiality for particular classes of transaction, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

CALCULATION AND DETERMINATION

- We have determined materiality based on professional judgement in the context of our knowledge of the authority, including consideration of factors such as sector developments, financial stability and reporting requirements for the financial statements.
- We determine materiality in order to:
  - Assist in establishing the scope of our audit engagement and audit tests
  - Calculate sample sizes
  - Assist in evaluating the effect of known and likely misstatements on the financial statements.

APPENDIX I: MATERIALITY
Continued

REASSESSMENT OF MATERIALITY

- We will reconsider materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality if we had been aware.
- Further, when we have performed all our tests and are ready to evaluate the results of those tests (including any misstatements we detected) we will reconsider whether materiality combined with the nature, timing and extent of our auditing procedures, provided a sufficient audit scope. If we conclude that our audit scope was sufficient, we will use materiality to evaluate whether uncorrected misstatements (individually or in aggregate) are material.
- You should be aware that any misstatements that we identify during our audit, both corrected and uncorrected errors, might result in additional audit procedures being necessary.

UNADJUSTED ERRORS

- In accordance with auditing standards, we will communicate to the Corporate Committee all uncorrected misstatements identified during our audit, other than those which we believe are ‘clearly trivial’.
- Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.
- We will obtain written representations from the Corporate Committee confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.
- There are a number of areas where we would strongly recommend/request any misstatements identified during the audit process being adjusted. These include:
  - Clear cut errors whose correction would cause non-compliance with statutory requirements, management remuneration, other contractual obligations or governmental regulations that we consider are significant.
  - Other misstatements that we believe are material or clearly wrong.

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation. In preparing this report, we do not accept or assume responsibility for any other purpose, or to any other person, except when expressly agreed by our prior written consent. If others choose to rely on the contents of this report, they do so entirely at their own risk.

BDO LLP is a corporate establishment under the Limited Liability Partnership Act 2000 and a UK Member Firm of BDO International. BDO Northern Ireland, a separate partnership, operates under a licence agreement. BDO LLP and BDO Northern Ireland are both separately authorised and regulated by the Financial Conduct Authority to conduct investment business.

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LONDON BOROUGH OF HARINGEY

Audit Progress Report

March 2017

INTRODUCTION

Background

This report is intended to provide the Audit Committee with an outline of our progress against our proposed work for 2016/17.

The Local Audit and Accountability Act 2014 makes the Comptroller and Auditor General for the National Audit Office responsible for the preparation, publication and maintenance of the Code of Audit Practice.

The Code sets out what local auditors are required to do to fulfil their statutory responsibilities under the Act:

Audit of the financial statements

- to be satisfied that the accounts present a true and fair view, and comply with the requirements of the enactments that apply to them
- to be satisfied that proper practices have been observed in the preparation of the accounts

Value for money arrangements

- to be satisfied that the organisation has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources

Reporting

- issue an audit plan that sets out how the auditor intends to carry out their duties
- report the findings of the audit to those charged with governance
- to express an opinion on the accounts
- the opinion on the organisation's arrangements to secure economy, efficiency and effectiveness in the use of resources
- to certify the completion of the audit
- issue an annual audit letter highlighting the results of the auditor's work.

Other assurance work

We are also undertaking work to provide grant certification assurance on the Housing Benefit Subsidy Claim and other grant claims and returns required by the Council.

Progress to date

We have assessed whether the arrangements put in place by the Council will allow us to complete our work by the expected deadlines and whether there are any issues that are likely to have a significant impact on our ability to provide unmodified audit reports and opinions.

This is included as a 'RAG' assessment in the report.

ASSESSMENT		EXPLANATION
RED	R	Unlikely to be able to meet reporting deadlines, significant concerns over governance or finance, or expected modification of audit report or opinion.
AMBER	A	Some concerns around meeting reporting deadlines, some concerns over governance or finance, or potential risk of modification of audit report or opinion.
GREEN	G	On target to meet deadlines and no current concerns over governance or finance.
	TBC	Work not yet started or sufficiently progressed to include a 'RAG' assessment

Tracking progress

In order to allow you to track our progress, where work has been completed and previously reported to you we have 'greyed' out the text.

The key completion and reporting dates are also noted in the following tables.

AUDIT PROGRESS 2016/17

AUDIT AREA	SCOPE	PROGRESS	REPORTS / OUTPUTS	RAG
PLANNING				
Planning letter	We are required to provide you with a planning letter setting out the scope of the audit for the year and the proposed fees set by Public Sector Audit Appointments Limited (PSAA).	We have issued our planning letter and the proposed fees for the Code audit are £206,475. We estimate that the fees for the grant certification review of the Housing Benefit Subsidy Claim will be £38,223.	**Planning Letter** Issued April 2016.	G
Audit plan	We are required to report to you the results of our detailed audit planning and the proposed audit response to significant audit risks ahead of commencement of the audit work.	We have agreed our audit plan with management and will be reported to the 21 March 2017 Corporate Committee meeting.	**Audit Plan** Reporting to the Corporate Committee on 21 March 2017.	G
FINANCIAL STATEMENTS				
Interim visit	Audit of the significant financial systems that support the financial statements to be completed before draft accounts are prepared.	Review and testing of the operating effectiveness of internal controls operated by the Council undertaken. We have provided some initial commentary to management on the draft MRP strategy, and noted some concerns over the amounts being set aside where using the 'annuity' provision method and a mismatch between PFI grant received and the MRP provision for the PFI assets. In our audit plan we have reported a potential risk that the Council may not apply a prudent MRP provision.	**Significant deficiencies in internal controls** Significant deficiencies in internal controls were identified in 2015/16 included: • Bank reconciliations • Accuracy of membership records for pension fund members. We have raised these as risks in our 2016/17 Council and Pension Fund audit plans. No other significant deficiencies in internal controls have been identified through our audit work to date. All other observations on internal controls will be reported in our Audit Completion Report to the September 2017 Corporate Committee meeting.	A

AUDIT PROGRESS 2016/17

AUDIT AREA	SCOPE	PROGRESS	REPORTS / OUTPUTS	RAG
FINANCIAL STATEMENTS (continued)				
Final audit visit	Audit of the draft financial statements to determine whether these give a true and fair view and have been prepared in accordance with the CIPFA's Code of Practice. The audit also includes a review of the annual governance statement.	Final audit testing of the financial statements will commence upon receipt of the draft financial statements, and on site at the Council from 5 July 2017.	**Audit Completion Report** The findings of our audit on the financial statements will be reported to the Corporate Committee at the September meeting ahead of the deadline of 30 September. **Auditor's report** The opinion on the financial statements will be included in the auditor's report and issued following the Corporate Committee's approval of the financial statements.	**TBC** September 2017 **Deadline** 30 September 2017
Whole of Government Account (WGA) schedules audit	We are required to provide an opinion whether the Council's WGA consolidation pack is consistent with the financial statements.	Review to be undertaken during the financial statements audit at the final audit visit.	**Opinion on the WGA consolidation schedules** The opinion on the consistency of the consolidation pack will be issued following the Corporate Committee's approval of the financial statements.	**TBC** September 2017 **Deadline** TBC
USE OF RESOURCES				
Review of arrangements to secure economy, efficiency and effectiveness	We are required to be satisfied that the organisation has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.	Initial review of the Council's arrangements, 2016/17 forecast financial outturn and updates to the 5 year medium term financial strategy. This has informed our planning risk assessment process and has highlighted significant risks in relation to sustainable finances and ensuring that the proposed governance arrangements are appropriate for the Haringey Development Vehicle. These are detailed in our audit plan.	**Final Audit Report** The findings of our review of use of resources will be reported to the September 2017 Corporate Committee meeting ahead of the deadline of 30 September. **Auditor's report** The conclusion on use of resources will be included in the auditor's report and will be issued following the Corporate Committee's approval of the financial statements.	**TBC** September 2017 **Deadline** 30 September 2017

AUDIT PROGRESS 2016/17

AUDIT AREA	SCOPE	PROGRESS	REPORTS / OUTPUTS	RAG
GRANTS AND RETURNS				
Review of the Housing Benefit Subsidy claim	To review and submit the Housing Benefit Subsidy grant claim in accordance with the PSAA HBCOUNT arrangements by 30 November 2017.	Samples to be selected and tested on receipt of draft 2016/17 claim and claim breakdowns. Update on 2015/16 audit issues reported The Council received a DWP letter in February 2017 setting out the potential loss of subsidy as a result of errors identified as part of the 2015/16 audit. Management are currently liaising with DWP to agree a timescale for additional work to be completed by the Council to address errors identified and seek to reduce the potential loss of subsidy proposed by DWP.	Housing Benefit Subsidy grant claim to be audited and submitted by 30 November 2017 deadline.	**TBC**
REPORTING				
Audit certificate	To certify the completion of the audit at the point that the auditor's responsibilities in respect of the audit of the period covered by the certificate have been discharged.	To be issued on completion of the audit of the financial statements and review of the arrangements to secure economy, efficiency and effectiveness.	**Auditor's report** The audit certificate to close the audit for the year will be included in the auditor's report.	**Deadline** To be issued after WGA opinion issued.
Annual audit letter	Public-facing summary of audit work and key conclusions for the year.	Annual Audit Letter to be drafted upon completion of audit work.	**Annual audit letter** The key findings from our audit will reported in the annual audit letter.	**Deadline** 31 October 2017
Grants report	Summary of our certification work completed on 31 March 2017 claims.	To be drafted after certification work concluded.	**Grants Report** The key findings from our work will be reported to the Corporate Committee.	**Deadline** After completion of certification work.

The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

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Agenda Item 14

Report for: Corporate Committee, 21 March 2017

Item number: 15

Title: Delegated Decisions, Significant Actions and Urgent Actions

Report authorised by : Bernie Ryan, Assistant Director for Corporate Governance

Lead Officer: Helen Chapman, Principal Committee Coordinator

Ward(s) affected: Non applicable

Report for Key/ Non Key Decision: Information

1. Describe the issue under consideration

To inform the Committee of delegated decisions and significant actions taken by Directors.

The report details by number and type decisions taken by Directors under delegated powers. Significant actions (decisions involving expenditure of more than £100,000) and any Urgent action taken in conjunction with the Chair of the Committee during the same period are also detailed.

2. Cabinet Member Introduction

Not applicable

3. Recommendations

That the report be noted.

4. Reasons for decision

Part Three, Section E of the Constitution – Responsibility for Functions, Scheme of Delegations to Officers - contains an obligation on officers to keep Members properly informed of activity arising within the scope of these delegations, and to ensure a proper record of such activity is kept and available to Members and the public in accordance with legislation. Therefore, each Director must ensure that there is a system in place within his/her business unit which records any decisions made under delegated powers.

Paragraph 3.02 of the scheme requires that regular reports (at least quarterly) shall be presented to the Cabinet Meeting, in the case of executive functions, and to the Corporate Committee, in the case of non-executive functions, summarising all decisions taken under urgency provisions

Paragraph 3.03 of the scheme requires that Regular reports (monthly or as near as possible) shall be presented to the Cabinet Meeting, in the case of executive functions, and to the responsible Member body, in the case of non executive functions, recording the number and type of all decisions taken under officers' delegated powers. Decisions of particular significance shall be reported individually.

Paragraph 3.04 of the scheme goes on to state that a decision of "particular significance", to be reported individually by officers, shall mean a matter not within the scope of a decision previously agreed at Member level which falls within one or both of the following:

(a) It is a spending or saving of £100,000 or more, or
(b) It is significant or sensitive for any other reason and the Director and Cabinet Member have agreed to report it.

5. Alternative options considered

Not applicable

6. Background information

To inform the Cabinet of delegated decisions and significant actions taken by Directors.

The report details by number and type decisions taken by Directors under delegated powers. Significant actions) decisions involving expenditure of more than £100,000) taken during the same period are also detailed.

Officer Delegated decisions are published on the following web page
http://www.minutes.haringey.gov.uk/mgDelegatedDecisions.aspx?bcr=1

7. Contribution to strategic outcomes

Apart from being a constitutional requirement, the recording and publishing of executive and non executive officer delegated decisions is in line with the Council's transparency agenda.

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

Where appropriate these are contained in the individual delegations.

9. Use of Appendices

The appendices to the report set out by number and type decisions taken by Directors under delegated powers. Significant actions
(Decisions involving expenditure of more than £100,000) taken during the same period are also detailed.

10. Local Government (Access to Information) Act 1985

Background Papers

The following background papers were used in the preparation of this report;

Delegated Decisions and Significant Action Forms
Those marked with ♦ contain exempt information and are not available for public inspection.

The background papers are located at River Park House, 225 High Road, Wood Green, London N22 8HQ.

To inspect them or to discuss this report further, please contact Helen Chapman on 020 8489 2615.

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RECORD OF DECISION TAKEN UNDER URGENT ACTION PROCEDURES OR DELEGATED AUTHORITY

All requests for action to be taken in accordance with established urgency procedures or delegated authority must be accompanied by an appropriate report setting out all relevant considerations, in particular legal and financial considerations, and with a clear recommendation[s] for action, in order for an appropriate decision to be taken in accordance with the provisions of current legislation.

Log No.	
Ward(s) affected	**Not Applicable**

Title of Report: Approval of the Draft Treasury Management Strategy Statement (TMSS) & Minimum Revenue Provision (MRP) Policy

Reason for urgency or relevant paragraph for authority under scheme of delegation

In accordance with Part Three, Section E, sub paragraph 5.01(b)of the Constitution, the agreement and recommendation for approval of the the Draft Treasury Management Strategy Statement including the Minimum Revenue Provision Policy can be confirmed by the Chief Operating Officer in consultation with the Chair of the Corporate Committee, and reported to the next ordinary meeting of the Corporate Committee.

Decision of Chief Officer

I approve the recommendation as set out in the attached report.

Signature **Date** 16/2/17

Concurrence of Chair of Corporate Committee

I concur with the above decision.

Signature Barbara J Blake **Date** 16 February 2017

Once signed by the Chief Officer this cover sheet together with the substantive report must be forwarded to Democratic Services and Scrutiny Team Level 5, River Park House - for processing. All requests for action to be taken in accordance with urgency procedures set out in the Council constitution, Part 3 Scheme of Delegation - section 1 must be dealt with in this way to ensure that the Council complies with the necessary legal requirements. This includes publication of the report and decision. Thank you for your co-operation.

Report for: Full Council

Item number:

Title: Draft (Revised) Treasury Management Strategy Statement (TMSS) & Minimum Revenue Provision (MRP) Policy - 2017/18 – 2019/20

Report authorised by: Tracie Evans, Chief Operating Officer (CFO)

Lead Officer: Oladapo Shonola, Head of Finance - Treasury & pensions
oladapo.shonola@haringey.gov.uk 02084893726

Ward(s) affected: N/A

Report for Key/ Non Key Decision: Non Key decision

1. Describe the issue under consideration

1.1 The Corporate Committee of the Council considered and agreed at its meeting of 31st January 2017 to recommend the draft TMSS, which also contains the MRP policy to Full Council for approval. Subsequent to this decision, officers have been advised that, although implied, approval for recommended policy changes outlined in the report should be explicit.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 That the following additional clarifications in the Council's MRP policy agreed by Corporate Committee are noted and approved by full Council.

3.2 That the proposed changes to the MRP policy are applied from 1st April 2016.

3.3 That full Council note and approve that financial agreements relating to capital investments that are reasonably expected to be returned in at maturity will not, at the discretion of the CFO, attract MRP where it is reasonably expected that the investment will be returned to the Council in full at maturity or over a defined period.

3.4 That full Council note changes to the capital expenditure tables.

3.5 That approvals in 3.1, 3.2, and 3.3 take effect from the date of authorisation of this report; and that these changes be reported to the next ordinary meeting of the Corporate Committee in accordance with Part 3, Section E, paragraph 5.01(b) of the Constitution.

4. Reasons for decision

4.1 The CIPFA Treasury Management Code of Practice requires all local authorities to agree a Treasury Management Strategy Statement including an Investment Strategy annually in advance of the financial year. The strategy should incorporate the setting of the Council's prudential indicators for the three forthcoming financial years.

5. Alternative Options Considered

5.1 None

6. Background information

6.1. The CIPFA Treasury Management Code of Practice requires that the Treasury Management Strategy Statement is formulated by the Committee responsible for the monitoring of treasury management, is then subject to scrutiny before being approved by full Council. At its meeting on 31st January 2017, the Corporate Committee agreed to recommend the full Council approve the draft TMSS.

6.2. Following the meeting, advice has been given to provide further clarification on the TMSS and MRP policy agreed at Committee to ensure that proper and explicit approval is given by full Council when approving the TMSS and to ensure MRP policy take effect from 1st April 2016.

6.3. Attached at appendix 1 is the revised TMSS which contains the clarifications regarding the MRP policy which is to take effect from 1st April 2016.

7 Contributions to Strategic Outcomes

7.1 Not applicable.

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

Finance and Procurement

8.1 Approval of the recommendations in this report is necessary to allow implementation of some of the savings proposals that have been approved to support the reduction of current year's budget deficit and also essential to the achievement of a balanced budget as set out in the Council's Medium Term Financial Strategy.

Legal

8.2 The Assistant Director, Corporate Governance, has been consulted in the preparation of this report, and makes the following comments.

8.3 Confirmation is given of the fact that the reasons which give rise to the need to invoke the urgency provisions under Part Three, Section E, sub paragraph 5.01(b) of the Constitution are properly made out. This is on the basis that the meeting of Full Council at which the approval of the Treasury Management Strategy and Statement is due to be considered is scheduled to take place on 27th February 2017. Accordingly, confirmation can also be given of the fact that the Chief Operating Officer has the delegated authority to take the decision sought in consultation with the Chair of the Corporate Committee.

Equalities

8.4 There are no equalities issues arising from this report.

9. Use of Appendices

9.1 Appendix 1 – Draft (Revised) Treasury Management Strategy Statement 2017/18 – 2019/20.

10. Local Government (Access to Information) Act 1985

10.1 Not applicable.

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Appendix 1

London Borough of Haringey

Treasury Management Strategy Statement 2017-18 to 2019-20

1 Introduction

1.1 In February 2012 the Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year.

1.2 In addition, the Department for Communities and Local Government (CLG) issued revised *Guidance on Local Council Investments* in March 2010 that requires the Council to approve an investment strategy before the start of each financial year.

1.3 This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the CLG Guidance.

1.4 The Council 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 Council's treasury management strategy.

1.5 In accordance with the CLG Guidance, the Council will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a change in how treasury management services are delivered, a large unexpected change in interest rates, or in the Council's capital programme or in the level of its investment balance.

2 External Context

2.1 **Economic background:** The major external influence on the Council's treasury management strategy for 2017/18 will be the UK's progress in negotiating a smooth exit from the European Union. Financial markets, wrong-footed by the referendum outcome, have since been weighed down by uncertainty over whether leaving the Union also means leaving the single market. Negotiations are expected to start once the UK formally triggers exit in early 2017 and last for up to two years. Uncertainty over future economic prospects will therefore remain throughout 2017/18.

2.2 The fall and continuing weakness in sterling and the near doubling in the price of oil in 2016 have combined to drive inflation expectations higher. The Bank of England is forecasting that Consumer Price Inflation will breach its 2% target in 2017, the first time since late 2013, but the Bank has indicated it will tolerate temporary inflation overshoots over the course of 2017 when setting interest rates so as to avoid derailing the economy.

2.3 Initial post-referendum economic data showed that the feared collapse in business and consumer confidence had not immediately led to significantly lower GDP growth. However, the prospect of leaving the single market has dented business confidence and resulted in delay of new business investment and, unless counteracted by higher public spending or retail sales, lack of new business investment will likely weaken economic growth in 2017/18.

2.4 Looking overseas, with the US economy and its labour market showing steady improvement, the market has priced in a high probability of the Federal Reserve increasing interest rates in December 2016. The Eurozone meanwhile has continued to struggle with very low inflation and lack of momentum in growth, and the European Central Bank has left the door open for further quantitative easing.

2.5 The impact of political risk on financial markets remains significant over the next year. With challenges such as immigration, the rise of populist, anti-establishment parties and negative interest rates resulting in savers being paid nothing for their frugal efforts or even penalised for them, the outcomes of Italy's referendum on its constitution (December 2016), the French presidential and general elections (April – June 2017) and the German federal elections (August – October 2017) have the potential for upsetting the status quo.

2.6 **Credit outlook:** Markets have expressed concern over the financial viability of a number of European banks recently. Sluggish economies and continuing fines for pre-crisis behaviour have weighed on bank profits, and any future slowdown will exacerbate concerns in this regard.

2.7 Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Council; returns from cash deposits however continue to fall.

2.8 **Interest rate forecast:** The Council's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.25% during 2017/18**.** The Bank of England has, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further falls in the Bank Rate look less likely. Negative Bank Rate is currently perceived by some policymakers to be counterproductive but, although a low probability, cannot be entirely ruled out in the medium term, particularly if the UK enters recession as a result of concerns over leaving the European Union.

2.9 Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50. Long-term economic fundamentals remain weak, and the quantitative easing (QE) stimulus provided by central banks globally has only delayed the fallout from the build-up of public and private sector debt. The Bank of England has defended QE as a monetary policy tool, and further QE in support of the UK economy in 2017/18 remains a possibility, to keep long-term interest rates low.

2.10 For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.20%, and that new long-term loans will be borrowed at an average rate of 2.84%.

3 Local Context

3.1 On 30th November 2016, the Council held £319m of borrowing and £38m of investments. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

3.2 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. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. The estimates for each pool, based on the current proposed Revenue Budget and Capital Programmes, are:

Table 1a: Treasury Position – General Fund

	31/03/2016 Actual £'000	31/03/2017 Approved £'000	31/03/2017 Projected £'000	31/03/2018 Estimate £'000	31/03/2019 Estimate £'000	31/03/2020 Estimate £'000
General Fund CFR	276,919	297,121	308,590	301,745	310,974	319,693
Less: Share of existing external debt and other long term liabilities	147,684	139,960	124,992	116,751	109,137	101,107
Internal Borrowing	129,235	131,318	183,598	184,994	191,186	197,111
Cumulative Net Borrowing Requirement	0	25,843	0	0	10,651	21,474

Table 1b: Treasury Position – HRA

	31/03/2016	31/03/2017	31/03/2017	31/03/2018	31/03/2019	31/03/2020

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	Actual £'000	Approved £'000	Projected £'000	Estimate £'000	Estimate £'000	Estimate £'000
HRA CFR	271,096	292,666	271,096	271,096	271,096	278,910
Less: Share of Existing External Debt & Other Long Term Liabilities	197,981	191,454	199,903	199,903	199,903	207,717
Internal Borrowing	73,115	69,780	71,193	71,193	71,193	71,193
Cumulative Net Borrowing Requirement	0	31,432	0	0	0	0

3.3 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during 2017/18 and the remainder of the forecast period.

3.4 The tables above show how the Council's capital requirement is funded currently and how it is expected to be funded in the coming years. Due to the differential between short and long term interest rates (discussed in more detail in section 4), the Council has maximised the amount of internal borrowing that can be done. As short term interest rates are forecast to remain relatively low (probably below 2%) for the next few years. It is anticipated that a significant level of internal / short term borrowing will continue, with the only reduction expected reflecting the planned movement in reserves.

3.5 Ensuring that gross external debt does not exceed the CFR over the medium term is a key indicator of prudence. There has been no difficulty meeting this requirement in 2016-17 nor are there any difficulties envisaged for future years, as the levels of internal borrowing in tables 1a and 1b above demonstrate.

3.6 It is a requirement for the HRA CFR to remain within the limit of indebtedness or "debt cap" set by the DCLG at the time of the implementation of self-financing. The table below shows the current expected level of the HRA CFR and the debt cap. Any decision by the Council to undertake new borrowing for housing will cause the future years' debt predictions for the HRA debt pool to increase.

Table 2: HRA Debt Cap

	31/03/16 Actual £'000	31/03/17 Approved £'000	31/03/17 Estimate £'000	31/03/18 Estimate £'000	31/03/19 Estimate £'000	31/03/20 Estimate £'000
HRA CFR	271,096	292,666	271,096	271,096	271,096	278,910
HRA Debt cap	327,538	327,538	327,538	327,538	327,538	327,538
Headroom	56,442	34,872	56,442	56,442	56,442	48,628

3.7 Table 3 below shows proposed capital expenditure over the coming three financial years. It is a requirement of the Prudential Code to ensure that capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and housing rent.

Table 3: Capital Expenditure

	2015/16 Actual £'000	2016/17 Approved £'000	2016/17 Projected Out-turn £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
General	44,571	115,687	67,795	77,087	62,425	64,813
HRA	96,436	83,775	61,886	43,561	42,944	43,220
Total	141,007	199,462	129,681	120,648	105,369	108,033

3.8 Capital expenditure is expected to be financed or funded as follows.

Table 4: Capital Financing

	2015/16 Actual £'000	2016/17 Approved £'000	2016/17 Projected Out-turn £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Capital receipts	9,275	25,798	565	19,248	12,594	6,204
Other grants & contributions	119,915	38,663	33,431	31,860	15,657	18,531
Government Grants	0	16,612	24,543	8,108	12,903	14,852
Reserves / Revenue contributions	7,452	28,260	52,228	36,332	34,622	33,331
Total Financing	136,642	109,333	110,767	95,548	75,776	72,918
Borrowing	4,365	56,689	18,914	25,100	29,593	35,115
Total	141,007	166,022	129,681	120,648	105,369	108,033

3.9. As an indicator of affordability the table below shows the incremental impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme and the number of rented properties (HRA). The General Fund and HRA ratios are below projections this year as no external borrowing has been required. For 2017-18 the ratio is impacted by expectations of significant additional borrowing for the General Fund.

Table 5: Incremental Impact of Capital Investment Decisions

	2015/16 Actual	2016/17 Approved	2016/17 Projected Out-turn	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate

	£'000	£'000	£'000	£'000	£'000	£'000
Increase in Band D Council Tax	10.03	32.04	1.58	14.98	19.97	20.30
Increase in Average Weekly Housing Rents	0.42	1.10	0.81	0.20	0.31	1.16

3.10. The ratio of financing costs to the Council's net revenue stream is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. The ratio is based on debt costs less investment income.

3.11. The ratio for the General Fund is deteriorating over the period. This is due mainly to reduced Council revenues, including reclassification of Better Care funding. The effect of net new borrowing is mitigated by the lower coupon compared with maturing debt. HRA would derive greater benefit from the repayment of high coupon debt.

Table 6: Ratio of Financing Costs to Net Revenue Stream

	2015/16 Actual	2016/17 Approved	2016/17 Projected Out-turn	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
	%	%	%	%	%	%
General Fund	1.85	1.93	1.89	2.18	2.12	2.36
HRA	9.02	8.88	9.06	9.87	9.39	10.35

4. Borrowing Strategy

4.1. The Council currently holds £273.6m of loans, a decrease of £11.6m on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Council expects to borrow up to £37.3m in 2017/18. The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £536.1m.

<u>Objectives</u>

4.2. The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

Strategy

4.3. Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

4.4. By doing so, the Council is able to reduce net borrowing costs and reduce overall treasury risk. The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by delaying borrowing into future years when long-term borrowing rates are forecast to rise modestly.

4.5. The level of reserves and working capital that enable internal borrowing will be monitored and projected changes will be used to determine the timing and level of new debt. The Council's treasury advisor will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2017-18 with a view to keeping future interest costs low, even if this costs more in the short-term.

4.6. Alternatively, the Council may arrange forward starting loans during 2017-18, where the interest rate is fixed in advance, but the cash is received in later years. This will enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. These arrangements will only be considered where there is certainty as to borrowing needs and timing and where predictability of interest costs is beneficial to the capital programme.

4.7. The Council will adopt a flexible approach to this borrowing in consultation with its treasury management advisers. The following issues will be considered prior to undertaking any external borrowing:

- Affordability;
- Maturity profile of existing debt;
- Interest rate and refinancing risk;
- Borrowing source.

The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- Other local authorities
- Institutions such as European Investment Bank and Commercial Banks

- UK public/private sector pension funds (except Haringey Pension Fund)
- Capital market bond investors
- UK Municipal Bonds Agency plc and other entities created to enable local Council bond issues
- Leasing

4.8. The Council may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages. The Council has previously raised the majority of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates.

4.9. UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities may be required to provide bond investors with a joint and several guarantee over the very small risk that other local Council borrowers default on their loans; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to Corporate Committee that contains explicit legal advice.

Lender's Option Borrower's Option Loans

4.9 The Council holds £125m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. All of these LOBOS have options during 2017/18, and although the Council understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so. No further LOBO loans will be considered without discussion with Corporate Committee.

Short-term and Variable Rate loans

4.10 These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below. However, they do, at present, offer significant savings compared with long term debt.

Debt Rescheduling

4.11 The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

5. Investment Strategy 2017-18

5.1. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £0 and £50m. It is anticipated that net balances will be lower next year as debt is repaid. The impact on the value of cash balances from capital expenditure and the timing of any associated debt financing are uncertain.

Objectives

5.2. Both the CIPFA Code and the CLG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council'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.

Negative Interest Rates

5.3. If the UK enters into a recession in 2017/18, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy

5.4. The majority of the Authorities surplus cash is currently invested in short-term unsecured bank deposits and money market funds. These investments are exposed to bank bail in risk. To reduce potential exposure to unsecured bank deposits, the counterparty policy has been expanded to include quasi government institutions; Supranational banks. Covered bonds are now identified separately from unsecured bank deposits as these deposits are of lower risk being both secured on collateral and possessing a bank issuer guarantee.

5.5. Following a review and as cash balances are not expected to increase in 2017/18, counterparty investment limits have been maintained at 2016/17 – counterparty limits for individual banks has been set at £5m and exposure to local Council is maintained at maximum deposit of £15m per Council. These changes also reflect the anticipation that cash balances will continue to remain at or below historic levels as part of the policy to minimise new long term borrowing.

Specified and Non-specified Investments

5.5. Investments are categorised as 'Specified' or 'Non Specified' investments based on the criteria in the CLG Guidance. Instruments proposed for the Council's use within its investment strategy are contained in Appendix 4, which also explains the meaning of these terms. The list of proposed counterparties is shown in Appendix 5. In keeping with the strategy of maintaining high quality counterparties, at least 50% of all investments will be specified investments.

Specified Investments

5.6. The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local Council, parish council or community council, or
  - a body or investment scheme of "high credit quality".

5.7. The Council defines "high credit quality" organisations and securities as those having a credit rating of [A-] or higher that are domiciled in the UK or a foreign country with a sovereign rating of [AA+] or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of [A-] or higher.

Non-specified Investments

5.8. Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table 7 below.

5.9. Although cash balances will be low at certain times, there may be opportunities to invest core balances for more than twelve months. On occasions investments with a maturity of slightly in excess of 12 months can offer exceptional good value. For this reason, the strategy allows a maximum of £5m to be invested for over 12 months but less than 24 months. The Chief Operating Officer, under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Investment activity will be reported to Corporate Committee as part of the quarterly reports.

Table 7: Limits - Specified and Non-Specified Investments

Specified Investments				
Instrument	**Country/ Domicile**	**Counterparty**	**Maximum Counterparty Limits £m**	**Maximum period of investment**

Term Deposits	UK	Debt Management Account Deposit Facility (DMADF), Debt Management Office (DMO)	No limit	364 days
Gilts	UK	Debt Management Office (DMO)	No limit	364 days
Treasury Bills	UK	Debt Management Office (DMO)	No limit	364 days
Term Deposits/ Call Accounts	UK	Other UK Local Authorities	£15m per local authority	364 days
Term Deposits/ Call Accounts/ Certificates of Deposit/Covered Bonds	UK or AA+	Counterparties rated at least A- Long Term (or equivalent)	£5m per bank or banking group	364 days
Constant Net Asset Value Money Market Funds (MMFs)	UK/Ireland/ Luxembourg domiciled	AAA-rated Money Market Funds	£10m per MMF*; Group limit £50m	Instant Access
Non Specified Investments				
Instrument	**Country/ Domicile**	**Counterparty**	**Maximum Counterparty Limits £m**	**Maximum period of investment**
Gilts	UK	Debt Management Office (DMO)	£10m	36 Months
Term Deposits/ Call Accounts	UK	Other UK Local Authorities	£15m per local authority	36 Months
Term Deposits/ Call Accounts/ Certificates of Deposit/Covered Bonds	UK or AA+	Counterparties rated at least A- Long Term (or equivalent)	£5m per bank or banking group	364 days
Variable NAV Enhanced Cash Funds	UK/Ireland/ Luxembourg domiciled	AAA - rated Funds	£5m per ECF*; Group limit £10m	Minimum Weekly Redemption

Risk Assessment and Credit Ratings

5.10. Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

5.11. Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

5.12. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then no new investments will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

<u>Other Information on the Security of Investments</u>

5.13. The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the 'quality financial press'. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

5.14. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

<u>Investment Limits</u>

5.15. The Council's estimated revenue reserves available to cover investment losses are forecast to be £18m on 31st March 2017. In order that no more than 85% of estimated available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £15m. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

6. Treasury Management Indicators

6.1. Exposures to treasury management risks are measured and managed using the following indicators.

Security

6.2. 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.

Table 8: Credit Score Target

	Target
Portfolio average credit	3 - 6

Interest Rate Exposures

6.3. This indicator is set to control the Authority's exposure to interest rate risk, which includes £125m of LOBO loans. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed will be:

Table 9: Interest Rate Exposure

	2017/18	2018/19	2019/20
Upper limit on fixed interest rate exposure	100%	100%	100%
Upper limit on variable interest rate exposure	60%	60%	60%

6.4. 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.

Authorised Limits for External Debt

6.5. The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) and is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit). The Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

Table 10: Authorised Limit

	2015/16 Actual £'000	2016/17 Approved £'000	2016/17 Projected Out-turn £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Borrowing	283,233	468,174	271,614	481,523	494,848	515,623
Other Long-term Liabilities	49,329	60,057	45,498	54,540	49,132	43,534
Total	332,562	528,231	317,112	536,063	543,980	559,157

Operational Boundary for External Debt

6.6. The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit. The Operational Boundary and Authorised Limit apply at the total level. The limits compare with existing gross debt of £272m and projected three year debt financed capital expenditure of £69m and provides scope for variations in capital expenditure, funding sources and reserves.

Table11: Operational Boundary

	2015/16 Actual £'000	2016/17 Approved £'000	2016/17 Projected Out-turn £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Borrowing	283,233	418,174	271,614	431,523	444,848	465,623
Other Long-term Liabilities	49,329	54,598	45,498	49,582	44,665	39,576
Total	332,562	472,772	317,112	481,105	489,514	505,199

6.7. The Chief Financial Officer has delegated Council, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of the Corporate Committee.

Maturity Profile

6.8. The Council is required to set limits on the percentage of the portfolio maturing in each of the periods set out in the table below. Limits in the following table are intended to control excessive exposures to volatility in interest rates when refinancing maturing debt. The limits have been set to reflect the current debt portfolio, and to allow enough flexibility to enable new borrowing to be taken for the optimum period. The limits apply to the combined General Fund and HRA debt pools.

6.9. The maturity range has been applied to LOBO loans (see 4.9 above) based on their contractual maturity date. The column on the right hand side represents the maturity structure based on the next date that the lender is able to reset interest rates.

Table 12: Maturity Profile

	Lower Limit	Upper Limit	31-Mar-16	31-Mar-16
	%	%	%	LOBO adjusted %
under 12 months	0%	60%	4%	48%
12 months & within 24 months	0%	40%	4%	4%
24 months & within 5 years	0%	40%	9%	9%
5 years & within 10 years	0%	40%	13%	13%
10 years & within 20 years	0%	40%	4%	4%
20 years & within 30 years	0%	40%	4%	0%
30 years & within 40 years	0%	50%	26%	12%
40 years & within 50 years	0%	50%	36%	10%
50 years & above	0%	40%	0%	0%

Liquidity Management

6.10. The Council uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

Principal Sums Invested for Periods Longer than 364 days

6.11. The purpose of this indicator is to control the Council'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 will be:

Table 13: Limit on Sums Invested Beyond 364 Days

	2017/18	2018/19	2019/20
Limit on principal invested beyond year end	£10m	£10m	£10m

7. MRP Statement

7.1. The Council's MRP policy has been reviewed and revised to better reflect the rules set out in the prudential code and government guidance around prudent provision for repayment of borrowed capital. The revised policy, which will take effect from 1 April 2016, ensures that provision for capital repayment is made over a period that is commensurate with the period in which the asset purchased provides benefits.

General Fund MRP policy: borrowing before 2007/08

7.2. The Council will calculate MRP on historic debt based on the Capital Financing Requirement (CFR) as at 1 April 2007.

7.3. The Council will calculate the MRP charge based on 2% of that CFR, fixed at the same cash value so that the whole debt is repaid after 50 years in total.

7.4. The historic MRP policy for borrowing incurred before 2007/08 led to MRP charges that exceeded what prudence required during the period from 1 April 2007 to 31 March 2016. This resulted in a cumulative charge at 31 March 2016 that was in excess of what is considered prudent and appropriate under the current policy. To reflect the historic over-provision the Council will undertake an annual review to determine whether to make a realignment of MRP charged to the General Fund, using the policy set out above, to recognise the excess sum charged to that point.

7.5. The following conditions will apply to the annual review:

- Total MRP after applying realignment will not be less than zero in any financial year.
- The cumulative total of the MRP realignment will never exceed the amount of historical over-provision calculated to 31 March 2016.

General Fund MRP policy: prudential borrowing from 2007/08

7.5. For borrowing incurred on schemes described by the Government as Prudential Borrowing or Unsupported Borrowing, MRP will be calculated over the estimated remaining useful life applicable to the expenditure (usually the useful life of the asset it is financing) using the Annuity repayment method in accordance with Option 3 of the guidance.

7.6. This means that MRP will be calculated on an annuity basis (like many domestic mortgages) over the estimated life of the asset. Estimated life periods will be determined by the Section 151 Officer under delegated powers.

7.7. In accordance with the provisions in the guidance, MRP will be first charged in the financial year following the one in which the entire asset to which the charge relates, becomes fully operational.

7.8. Financial agreements such as loans, investments or where assets are to be acquired for future development (including where capital receipts are part of the business case), will not, at the discretion of the CFO, attract MRP. This discretion will be applied where it is reasonable to assume that the initial capital investment will be returned to the Council in full at maturity or over a defined period.

Concession Agreements

7.9. MRP in relation to concession agreements (e.g. PFI contracts) and finance leases will be calculated on an asset life method using an annuity repayment profile, consistent with the method for all prudential borrowing since 2007/08. Estimated life periods will be determined under delegated powers.

7.10. The Section 151 Officer may approve that such debt repayment provision may be made from capital receipts or from revenue provision.

Finance Leases

7.11. For assets acquired by finance leases, including leases brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

Statutory capitalisations

7.12. For expenditure which does not create a fixed asset, but is statutorily capitalised and subject to estimated life periods that are referred to in the guidance, these estimated periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

7.13. Other methods to provide for debt repayment may occasionally be used in individual cases where this is consistent with the statutory duty to be prudent, at the discretion of the Section 151 Officer.'

8. Capital Expenditure

8.1. The evaluation of capital expenditure projects incorporates the cost of financing. This comprises two elements (a) the recovery of purchase costs through MRP and (b) interest. Where capital expenditure is low and no specific borrowing is required the interest cost allocated to the project will be the average cost of the Council's debt portfolio. This method will be used even if no borrowing takes place in the year as capital expenditure reduces the ability to repay debt.

8.2. For projects incurring a high initial cost for which specific debt financing is arranged, then the interest cost used will be the average rate on the specific debt.

9. Other Items

9.1. There are a number of additional items that the Council is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

Policy on Use of Financial Derivatives

9.2. The Council has previously made use of financial derivatives embedded into loans to reduce costs e.g. LOBO loans. The Council will not use standalone financial derivatives (such as swaps, forwards, futures and options). Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Policy on Apportioning Interest to the HRA

9.3. On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA at the Council's average interest rate on investments.

Investment Training

9.4. CIPFA's Treasury Management Code of Practice requires the Chief Financial Officer to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

9.5. Given the significant amounts of money involved, it is crucial members have the necessary knowledge to take treasury management decisions. Training sessions are arranged for members to keep their knowledge up to date.

9.6. The needs of the Council's treasury management staff for training in investment management are assessed as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

Investment Advisers

9.7. The Council has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is reviewed by the Council's treasury management staff.

Investment of Money Borrowed in Advance of Need

9.8. The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks.

9.9. The total amount borrowed in 2017-18 will not exceed the authorised borrowing limit of £536m. The maximum period between borrowing and expenditure is expected to be one year, although the Council is not required to link particular loans with particular items of expenditure.

Financial Implications

9.10. The budget investment income in 2017-18 is £30k, based on an average investment portfolio of £14m at an interest rate of 0.20%. The budget for debt interest paid in 2017-18 is £14.5m, based on an average debt portfolio of £310m (including short term debt) at an average interest rate of 4.95%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will also be different. Interest paid and earned is apportioned between the General Fund and HRA. The average interest rate on existing debt will decline in 2017-18 from 5.19% to 5.10% with interest costs falling by approximately £1.0m. New debt is projected to cost an average 2.84%.

9.11. The Council complies with the provisions of Section 32 of the Local Government Finance Act 1992 to set a balanced budget.

Monitoring & Reporting

9.12. Corporate Committee will receive quarterly reports on treasury management activity and performance. This will include monitoring of the prudential indicators.

9.13. It is a requirement of the Treasury Management Code of Practice that an outturn report on treasury activity is produced after the financial year end, no later than 30th September. This will be reported to Corporate Committee, shared with the Cabinet member for Resource & Culture and then reported to full Council. Overview and Scrutiny Committee will be responsible for the scrutiny of treasury management activity and practices.

9.14. Officers monitor counterparties on a daily basis with advice from the Council's treasury management advisers to ensure that any creditworthiness concerns are addressed as soon as they arise.

10. Other Options Considered

10.1. The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Operating Officer

(COO), having consulted Corporate Committee, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix 1

Details of Treasury Position

A: General Fund Pool

	31-Mar-17 Projected £'000	31-Mar-18 Estimate £'000	31-Mar-19 Estimate £'000	31-Mar-20 Estimate £'000
Existing External Borrowing commitments:				
PWLB	37,212	33,152	29,635	25,847
Market loans	42,281	42,281	42,281	42,281
Total External Borrowing	79,493	75,433	71,916	68,128
Long Term Liabilities	45,499	41,318	37,221	32,980
Total Gross External Debt	124,992	116,751	109,137	101,108
CFR	308,590	301,745	310,974	319,693
Internal Borrowing	183,598	184,994	191,186	197,111
Cumulative Borrowing requirement	0	0	10,651	21,473

B: HRA Pool

	31-Mar-17 Projected £'000	31-Mar-18 Estimate £'000	31-Mar-19 Estimate £'000	31-Mar-20 Estimate £'000
Existing External Borrowing commitments:				
PWLB	117,184	117,184	117,184	124,998
Market loans	82,719	82,719	82,719	82,719
Total External Borrowing	199,903	199,903	199,903	207,717
CFR	271,096	271,096	271,096	278,910
Internal Borrowing	71,193	71,193	71,193	71,193
Cumulative Borrowing requirement	0	0	0	0

C: Security Measure

		2017-18	2018-19	2019-20
Above target	AAA to AA+	Score 0 - 2	Score 0 - 2	Score 0 – 2
Target score	AA to A	Score 3 – 6	Score 3 – 6	Score 3 – 6
Below target	Below A	Score 6+	Score 6+	Score 6+

Appendix 2

Summary of Prudential Indicators

No.	Prudential Indicator	2017/18	2018/19	2019/20
CAPITAL INDICATORS				
1	Capital Expenditure	£'000	£'000	£'000
	General Fund	77,087	62,425	64,813
	HRA	43,561	42,944	43,220
	TOTAL	120,648	105,369	108,033

No.	Prudential Indicator	2017/18	2018/19	2019/20
2	Ratio of financing costs to net revenue stream	%	%	%
	General Fund	2.18	2.12	2.36
	HRA	9.87	9.39	10.35

No.	Prudential Indicator	2017/18	2018/19	2019/20
3	Capital Financing Requirement	£'000	£'000	£'000
	General Fund	301,745	310,974	319,693
	HRA	271,096	271,096	278,910
	TOTAL	572,841	582,070	598,603

No.	Prudential Indicator	2017/18	2018/19	2019/20
4	Incremental impact of capital investment decisions	£	£	£
	Band D Council Tax	14.98	19.97	20.30
	Weekly Housing rents	0.20	0.31	1.16

No.	Prudential Indicator	2017/18	2018/19	2019/20
TREASURY MANAGEMENT LIMITS				
5	Borrowing Limits	£'000	£'000	£'000
	Authorised Limit	536,063	543,980	559,157
	Operational Boundary	481,105	489,514	505,199

No.	Prudential Indicator	2017/18	2018/19	2019/20
6	HRA Debt Cap	£'000	£'000	£'000
	Headroom	56,442	56,442	48,628

No.	Prudential Indicator	2017/18	2018/19	2019/20
7	Upper Limit - Fixed Rate Exposure	100%	100%	100%
	Upper Limit - Variable Rate Exposure	60%	60%	60%

No.	Prudential Indicator	2017/18		2018/19		2019/20	
8	Maturity Structure of Borrowing						
	U: Upper, L: Lower	L	U	L	U	L	U
	Under 12 Months	0%	60%	0%	60%	0%	60%
	12 Months & Within 2 Years	0%	40%	0%	40%	0%	40%
	2 Years & Within 5 Years	0%	40%	0%	40%	0%	40%
	5 Years & Within 10 Years	0%	40%	0%	40%	0%	40%
	10 Years & Within 20 Years	0%	40%	0%	40%	0%	40%
	20 Years & Within 30 Years	0%	40%	0%	40%	0%	40%
	30 Years & Within 40 Years	0%	50%	0%	50%	0%	50%
	40 Years & Within 50 Years	0%	50%	0%	50%	0%	50%
	50 Years & above	0%	40%	0%	40%	0%	40%

No.	Prudential Indicator	2017/18	2018/19	2019/20
9	Sums invested for more than 364 days	10	10	10

No.	Prudential Indicator	2017/18	2018/19	2019/20
10	Adoption of CIPFA Treasury Management Code of Practice	✓	✓	✓

Appendix 3

Arlingclose Economic & Interest Rate Forecast November 2016

- The medium term outlook for the UK economy is dominated by the negotiations to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU and other countries.

- The global environment is also riddled with uncertainty, with repercussions for financial market volatility and long-term interest rates. Donald Trump's victory in the US general election and Brexit are symptomatic of the popular disaffection with globalisation trends. The potential rise in protectionism could dampen global growth prospects and therefore inflation. Financial market volatility will remain the norm for some time.

- However, following significant global fiscal and monetary stimulus, the short term outlook for the global economy is somewhat brighter than earlier in the year. US fiscal stimulus is also a possibility following Trump's victory.

- Recent data present a more positive picture for the post-Referendum UK economy than predicted due to continued strong household spending.

- Over the medium term, economic and political uncertainty will likely dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment.

- The currency-led rise in CPI inflation (currently 1.0% year/year) will continue, breaching the target in 2017, which will act to slow real growth in household spending due to a sharp decline in real wage growth.

- The depreciation in sterling will, however, assist the economy to rebalance away from spending. The negative contribution from net trade to GDP growth is likely to diminish, largely due to weaker domestic demand. Export volumes will increase marginally.

- Given the pressure on household spending and business investment, the rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes to the negative effects of Brexit on economic activity and, ultimately, inflation.

- Bank of England policymakers have, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further monetary loosening looks less likely..

Forecast:

- Globally, the outlook is uncertain and risks remain weighted to the downside. The UK domestic outlook is uncertain, but likely to be weaker in the short term than previously expected.

- The likely path for Bank Rate is weighted to the downside. The Arlingclose central case is for Bank Rate to remain at 0.25%, but there is a 25% possibility of a drop to close to zero, with a very small chance of a reduction below zero.

- Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	**0.12**
Arlingclose Central Case	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**
Downside risk	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	**0.40**
3-month LIBID rate														
Upside risk	0.05	0.05	0.10	0.10	0.10	0.15	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.18**
Arlingclose Central Case	**0.25**	**0.25**	**0.25**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.29**
Downside risk	0.20	0.25	0.25	0.25	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.34**
1-yr LIBID rate														
Upside risk	0.10	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	**0.23**
Arlingclose Central Case	**0.60**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.60**	**0.70**	**0.85**	**0.90**	**0.90**	**0.90**	**0.65**
Downside risk	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	**0.24**
5-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.39**
Arlingclose Central Case	**0.50**	**0.40**	**0.35**	**0.35**	**0.35**	**0.40**	**0.40**	**0.40**	**0.45**	**0.50**	**0.55**	**0.60**	**0.65**	**0.45**
Downside risk	0.30	0.45	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	**0.47**
10-yr gilt yield														
Upside risk	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.39**
Arlingclose Central Case	**1.15**	**0.95**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.90**	**0.95**	**1.00**	**1.05**	**1.10**	**1.15**	**0.96**
Downside risk	0.30	0.45	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	**0.47**
20-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.39**
Arlingclose Central Case	**1.70**	**1.50**	**1.40**	**1.40**	**1.40**	**1.40**	**1.40**	**1.45**	**1.50**	**1.55**	**1.60**	**1.65**	**1.70**	**1.75**
Downside risk	0.40	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	**0.57**
50-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.39**
Arlingclose Central Case	**1.60**	**1.40**	**1.30**	**1.30**	**1.30**	**1.30**	**1.30**	**1.35**	**1.40**	**1.45**	**1.50**	**1.55**	**1.60**	**1.41**
Downside risk	0.40	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	**0.57**

Appendix 4

Counterparty Policy

The investment instruments identified for use in 2016-17 are listed in the table. Each investment type is classified as either 'Specified' or 'Non – Specified' investment categories. Specified investments are considered low risk and relate to funds invested for up to one year. Only those investments with a credit rating of at least AA- are considered as specified. Non-specified investments normally offer the prospect of higher returns but carry higher risk and may have a maturity beyond one year. At least 50% of investments held will be specified. All investments are sterling denominated.

As discussed in the borrowing strategy the plan during 2017-18 is to rely on short term debt and minimise cash balances. This will lead to a high proportion short dated and tradable instruments e.g. money market funds, T-bills, CDs and DMO within the cash portfolio to cover liquidity needs.

Investments do not include capital expenditure as defined under section 25(1) (d) in SI 2003 No 3146 (i.e. the investment is not loan capital or share capital in a body corporate).

Minimum Credit Quality & diversification Limits

For credit rated counterparties, the minimum criteria will be the lowest equivalent long-term ratings assigned by Fitch, Moody's and Standard & Poor's (where assigned) as below:

Long-term minimum: A- (Fitch); A3 (Moody's); A- (S&P)

The Council will also take into account the range of information on investment counterparties detailed in 'other information' section above.

The limits stated in the table below will apply across the total portfolio operated by the Council and so incorporate both Council and Pension Fund specific investments. The limits for the period of investment are the maximum for the categories of counterparties. Lower operational limits will apply if recommended following a review of creditworthiness. Operationally a limit will be applied to the amount invested in any MMF of no more than 2.0% of the Money Market Fund's total assets.

Non UK Banks

The use of non-UK banks was suspended pre April 2015. Nine countries retain AAA ratings from all three rating agencies – Australia, Canada, Denmark, Germany, Netherlands, Norway, Singapore, Sweden and Switzerland. Within these countries twelve banks meet the AA- or better criteria mentioned above and these have been included as eligible counterparties (Appendix 5). Using the highest quality overseas banks will both improve the overall security of the investment portfolio and enable greater diversification.

Maturities Guidance

At present, maturities have been kept to less than 12 months reflecting the expectation that cash balances will be maintained at low levels. However, there remains a core cash balance that persists over time. Longer maturities attract higher returns at present to compensate for illiquidity and the prospect of increased base rates in future. The strategy has been revised to permit a maximum of £10m to be invested between 12 – 24 months.

Institution Type	Minimum Credit Rating	Maximum Counterparty Limit	Maximum Period of Investment	Specified / Unspecified
Debt Management Office	UK Government	No limit	364 days	specified
Gilts, Treasury Bill & Repos	UK Government	No limit £10m	364 days 24 months	Specified non-specified
Supra-national Banks & European Agency	AA-	£10m £5m	364 days 24 months	specified non-specified
Covered Bonds issued by UK Banks	Bond AA+ / counterparty A- Bond AA+ / Counterparty BBB+ Bond AA+ / counterparty A-	£5m per bond, £20m aggregate £5m per bond, £10m aggregate £5m per bond, £10m aggregate	364 days 364 days 24 months	Specified Non-specified non-Specified
UK Local Council Deposits	n/a	£15m per counterparty £5m per counterparty	364 days 24 months	specified non-specified
UK & AAA country Banks - term deposits, CDs and call accounts	AA- AA- A-	£10m per bank or banking group £5m per bank or banking group £5m per bank or banking group	364 days 24 months 364 days	specified non-specified non-specified
Constant Net Asset Value Money Market Funds (MMFs), UK / Ireland / Luxembourg domiciled Variable NAV Enhanced Cash Funds, UK/Ireland/Luxembourg domiciled	AAA AAA	£10m per MMF. Aggregate £50m. £5m per ECF. Group limit £15m	daily liquidity Minimum Weekly Redemption	specified non-specified

Additional Details on Types of Investments

Banks and Building Society Deposits, Call Accounts and Certificates of Deposit: These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

Banks Covered Bonds: These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in.

Money Market and Enhanced Cash Funds: Shares in diversified investment vehicles consisting of time deposits, call accounts, CDs etc with banks and financial institutions. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while Enhanced Cash Funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Appendix 5

Lending List of counterparties for investments

This is the proposed list of bank counterparties which the Council can lend to, providing the counterparties meet the requirements set out in Appendix 4 at the time of investment. The list will be kept under constant review and counterparties removed if the process described in the investment strategy raises any concerns about their credit worthiness. In addition to the counterparties listed below, UK government, local authorities, money market funds and enhanced cash funds are included in Appendix 4.

A UK bank has been suspended as a counterparty when compared with last year's list. The number of supranational banks has doubled from four to eight. All are AAA rated by the three rating agencies. These banks raise funds via CDs. The Arlingclose support maximum maturities of up to 25 years for AAA rated supranational banks, although a 15 year maximum maturity is recommended for the Council of Europe Development Bank.

There has been a net addition of six overseas banks to the counterparty list. All are rated AA- or better by all three rating agencies. These banks rarely take deposits in the UK but can be accessed through CDs. There are currently no overseas banks in the portfolio. In addition to the limits set out in Appendix 4, a limit of £5m per bank and £10m per Non-UK country will be applied.

Covered deposits offer additional default protection due to the provision of collateral as security.

The counterparty list excludes MMF and ECF's as the name of the fund reflects the fund manager not the quality of the underlying holdings. Selection of MMFs and ECFs will be based on the criteria set of in Appendix 4. The limit for any single MMF is £10m and each ECF is £5m – Group limit £50m.

Should Arlingclose reduce the maximum recommended maturity guidance for any bank, this will be reflected in the portfolio.

Instrument	Country / Domicile	Counterparty	Arlingclose Suggested (Maximum) Maturity
UK Banks and Building Societies- Term Deposits, Call Accounts & CDs			
	United Kingdom	BANK OF SCOTLAND PLC	13 months
	United Kingdom	LLOYDS BANK PLC	13 months
	United Kingdom	BARCLAYS BANK PLC	100 days
	United Kingdom	COVENTRY BUILDING SOCIETY	6 months
	United Kingdom	HSBC BANK PLC	13 months
	United Kingdom	NATIONWIDE BUILDING SOCIETY	6 months
	United Kingdom	ABBEY NATIONAL TREASURY SERV	6 months
	United Kingdom	SANTANDER UK PLC	6 months
UK: Other Institutions			
	United Kingdom	DEBT MANAGEMENT OFFICE	50 years
	United Kingdom	LCR FINANCE PLC	15 years
	United Kingdom	WELLCOME TRUST FINANCE PLC	20 years
Non-UK Banks - Term Deposits, Call Accounts and CDs			
	Australia	AUST AND NZ BANKING GROUP	6 months
	Australia	NATIONAL AUSTRALIA BANK LTD	6 months
	Canada	EXPORT DEVELOPMENT CANADA	25 years
	Denmark	KOMMUNEKREDIT	25 years
	Finland	MUNICIPALITY FINANCE PLC	15 years
	Germany	FMS WERTMANAGEMENT	25 years
	Germany	KREDITANSTALT FUER WIEFERAUF	25 years
	Germany	LANDESKRED BADEN-WUERTT FOER	25 years
	Germany	LANDWIRTSCHAFTLICHE RENTENBA	25 years
	Germany	LAND SACHSEN-ANHALT	15 years
	Netherlands	BANK NEDERLANDSE GEMEENTEN	5 years
	Netherlands	NEDERLANDSE WATERSCHAPSBANK	5 years
	Norway	KOMMUNALBANKEN AS	5 years
	Singapore	TEMASEK FINANCIAL I LTD	10 years
	Sweden	SVENSK EXPORTKREDIT AB	5 years
	Sweden	SVENSKA HANDELSBANKEN-A SHS	13 months
Supranational Banks			
		COUNCIL OF EUROPE DEVELOPMNT	15 years
		EUROPEAN BANK FOR RECONSTRUC	25 years
		EUROPEAN COAL & STEEL COMMUN	25 years
		EUROPEAN INVESTMENT BANK	25 years
		INTER-AMERICAN DEV BANK	25 years
		INTERNATIONAL BANK FOR RECON	25 years
		INTERNATIONAL FINANCE CORP	25 years
		NORDIC INVESTMENT BANK	25 years

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