NOTICE OF MEETING

CORPORATE COMMITTEE

Thursday, 30th November, 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, Gail Engert, Adam Jogee, Reg Rice, Viv Ross, Raj Sahota and Ali Gul Ozbek

Co-optees/**Non Voting Members**:

Quorum: 3

1. FILMING AT MEETINGS

Please note that 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)

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 - 6)

To consider and agree the minutes of the meeting held on 21 September 2017.

7. UPDATED TREASURY MANAGEMENT STRATEGY STATEMENT (PAGES 7 - 84)

Report of the Interim Chief Finance Officer presenting the updated Treasury Management Strategy Statement and Prudential Indicators for 2017/18 – 2019/20.

8. MID YEAR TREASURY MANAGEMENT UPDATE REPORT (PAGES 85 - 98)

Report of the Interim Chief Finance Officer updating the Committee on the Council's treasury management activities and performance in the six months to 30 September 2017 in accordance with the CIPFA Treasury Management Code of Practice.

9. INTERNAL AUDIT PROGRESS REPORT QUARTER 2 (PAGES 99 - 120)

Report of the Assistant Director of Corporate Governance detailing the work undertaken by Internal Audit in the quarter ending 30 September 2017 and focuses on progress on internal audit coverage relative to the approved internal audit plan, including the number of audit reports issued and finalised – work undertaken by the external provider (Mazars).

10. COUNTER-FRAUD UPDATE QUARTER 2 (PAGES 121 - 128)

Report of the Assistant Director of Corporate Governance detailing the work undertaken by the Counter Fraud Team in the quarter ending 30 September 2017 and focuses on details of pro-active and reactive investigative work undertaken relating to fraud and/or irregularities – work undertaken by the in-house Fraud Team.

11. INTERNAL AUDIT CHARTER & SELF ASSESSMENT (PAGES 129 - 146)

Report of the Assistant Director of Corporate Governance presenting the Internal Audit Charter and annual self-assessment

12. ANY OTHER BUSINESS OF AN URGENT NATURE

To consider any items admitted at item 2 above.

13. DATE AND TIME OF NEXT MEETING

1st February 2018

Susan John, Principal Committee Co-ordinator
Tel – 020 8489 2615
Fax – 020 8881 5218
Email: susan.john@haringey.gov.uk

Bernie Ryan
Assistant Director – Corporate Governance and Monitoring Officer
River Park House, 225 High Road, Wood Green, N22 8HQ

Wednesday, 22 November 2017

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MINUTES OF THE MEETING OF THE CORPORATE COMMITTEE HELD ON THURSDAY, 21ST SEPTEMBER, 2017, 7.00 - 10.00 pm

PRESENT:

Councillors: Barbara Blake (Chair), Eddie Griffith (Vice-Chair), Gina Adamou, Charles Adje, Patrick Berryman, Isidoros Diakides, Reg Rice, Viv Ross and Clive Carter

161. FILMING AT MEETINGS

The Chair referred Members present to agenda Item 1 as shown on the agenda in respect of filming at this meeting, and Members noted the information contained therein.

162. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS (IF ANY)

Apologies for absence had been received from Cllr Engert for whom Cllr Carter was substituting and Cllr Jogee.

163. URGENT BUSINESS

There were no items of urgent business.

164. DECLARATIONS OF INTEREST

There were no declarations of interest.

165. DEPUTATIONS / PETITIONS / PRESENTATIONS / QUESTIONS

There were no such items.

166. MINUTES

RESOLVED

That the minutes of the Corporate Committee held on 25th July 2017 and special meeting held on 13th July 2017 be approved as a correct record and signed by the chair.

167. HARINGEY COUNCIL SMOKING POLICY

The Committee considered the report on the Haringey Council Smoking Policy, as presented by Susan Otiti, Assistant Director of Public Health. Committee Chair, Councillor Blake, explained the misunderstanding that had occurred previously when this report was last presented to the Committee highlighting that the policy had already been approved by the Staffing & Remuneration Committee in relation to all staff members. The reason for it coming to this Committee was for approval for it to be implemented for non-council employees who use Council premises as a place of work as specified in the addendum provided to members.

In response to a question from the Committee is was confirmed that Public Health were working with the Communications team and the Workforce Health and Wellbeing Board to develop the implementation plan and ensure that communication on the policy is very clear to all who have dealings with the Council's premises.

The Committee raised the fact that at the last Committee meeting a request had been made for a copy of the trade unions responses to this policy which had not yet been received. It was agreed that these responses would be circulated to the Members within 24 hours.

Action: Assistant Director of Public Health

Councillor Adje made a declaration that he was a trade union secretary and requested that this be minuted.

As there was an equality of votes, the Chair exercised her right to have a casting vote.

RESOLVED

The Corporate Committee agreed to the proposed changes to Haringey Councils Smoking Policy in relation to people who are not Council employees who use Council premises as a place of work. The proposed revised Smoking Policy is at Appendix A. All agency workers, consultants, individual contractors and the employees/workers of contractors, while on Council business will be required to comply with the Smoking Policy.

The proposed changes relevant to this Committee include:

- 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 metres). The changes to the Smoking Policy instruct employees and contractors 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) in outdoor Council premises

168. SCHOOLS' AUDIT PERFORMANCE - ACTION PLAN

Item 13 on the agenda was brought forward.

The Committee considered the feedback report on the Schools Audit Performance-Action Plan, as presented by Eveleen Riordan, Joint Assistant Director Schools & Learning.

It was highlighted that historic training for schools and governors was being carried out around identifying key risk areas and controlling processes. Workshops were also being offered to all schools being audited during 2017/18 and the majority of schools have agreed to attend these sessions. A Schools Forum and Finance Board were implemented to financially support, challenge and assess financial decisions made within schools.

In response to questions raised by the Committee it was confirmed that the proposed timescale for reviews of schools that received nil assurance would be approximately once a year.

RESOLVED

The Committee noted the contents of this report.

169. TREASURY MANAGEMENT UPDATE

The Committee received a presentation on the Treasury Management update for the three months to 30th June 2017 from Thomas Skeen, Head of Pensions, which set out the general background and an update on the Council's borrowing and investment positions. The Committee noted that all treasury management activity during the quarter had been in line with the approved Treasury Management Strategy Statement.

It was noted that at the time of writing the report, market expectations were that bank rates may fall further but that market sentiment was changing and that a rate rise now appeared to be a more likely outcome.

In response to a question raised by the Committee it was confirmed that interest and gilt rates would be monitored carefully in relation to the Council's plan to take out additional long term borrowing in 2017/18. It was noted that the long term loans held by the Council had decreased by £2.6m.

RESOLVED

The Committee noted the Treasury Management activity undertaken during the three months to 30th June 2017 and the performance achieved.

170. IMPLEMENTATION OF THE MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE

The Committee received a presentation on the Implementation of the Markets in Financial Instruments Directive (MiFID II) from Thomas Skeen, Head of Pensions, which outlined the potential impact that the adoption within the UK of this legislation would have on the local authority treasury management investment strategies and the recommended actions needed to continue to act as a Professional Investor.

The Committee were notified that if no action was taken then the Council would be downgraded to a 'retail client status' which would mean being placed in the same category as non-professional individuals and small businesses. It was advised that choosing to ‘opt up’ to a ‘professional client status’ was essential to allow the Council to continue to effectively implement its treasury investment strategy.

In response to a questions from the Committee it was confirmed that this change would not incur additional costs other than internal officer time.

RESOLVED

The Committee:

- Noted the potential impact on the treasury management investment strategy of becoming a retail client with effect from 3 January 2018.
- Agreed to the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective treasury strategy.
- In electing for professional client status acknowledged and agreed to forgo the protections available to retail clients attached as Appendix 1.
- Agreed to approve delegated responsibility to the Chief Finance Officer (S151 Officer) for the purposes of completing the applications and determining the basis of the application as either full or single service

171. STATEMENT OF ACCOUNTS

The Committee considered the report on the Statement of Accounts for 2016/17 following the completion of the external audit. Rob Woollatt, Interim Chief Accountant, gave an introductory presentation on understanding the statement of accounts, covering the purpose of the statement of accounts, how they were presented and what they meant. It was noted that from next year the deadline for the completion of the audit would be brought forward to 31st July 2018.

The Committee were advised that all the recommendations from the auditors on the draft accounts had been implemented in the final accounts. However there were further amendments, as specified in the addendum presented at the meeting. These amendments were outlined by the Interim Chief Accountant and it was highlighted that these did not alter the reserves, balances or net expenditure of the Council.

Leigh Lloyd-Thomas, Engagement Lead for the Council’s External Auditors, BDO LLP, presented the findings as set out in their Audit Completion Statement.

Mr Lloyd-Thomas explained that BDO had a responsibility to report errors in aggregate of over £16m according to the concept of materiality in order to give a true and fair opinion but noted that any errors over £0.5m had actually been reported.

BDO gave an overview of all the outstanding matters and the Committee discussed the audit areas of significant risk. One area of particular interest to the Committee was that of land, buildings, dwellings and investment property valuations. There were two material misstatements, one in the current year and one in the prior year, that were identified.

Another audit risk area discussed by the Committee was that of Housing Revenue Account asset componentisation. The question was raised as to why the Council had decided to increase the percentage allocation of the overall value as land and reduce the allocated value to the buildings. The Interim Chief Accountant advised that as the goal was to get the asset values materially correct the judgement of how to split the land and buildings was taken upon advice from the valuers .It was agreed that a copy of the engagement letter from the Council to the valuers would be distributed to the Committee.

Action: Interim Chief Accountant

BDO highlighted the number of errors contained within the valuation reports received by the Council and advised that this should be addressed. The Interim Chief Finance Officer advised that the contract was due to be re-let during 2017/18.

While discussing the Notes to the Statements the question was raised as to why payments had been made back to the Government Housing Capital Receipts Pool in 2015/16 when they could have been used for Council investment. BDO advised that they were not aware of any other Local Authorities that had done this and the Interim Chief Finance Officer reassured the Committee that he was looking into this to ensure that in future, the use of such receipts by the Council was maximised.

The question was also raised as to why Services were allowed to carry over and retain budget under and over spends. The Interim Chief Finance Officer reassured the Committee that he was reviewing this as well.

RESOLVED

- The Committee considered the contents of the report and any further oral updates given at the meeting by BDO LLP
- The Committee approved the Statement of Accounts 2016/17, subject to any final changes required by the conclusion of the audit, being delegated to the Chief Financial Officer in consultation with the Chair.
- The Committee gave the Chair of the Committee and Chief Finance Officer (S151 Officer) authority to sign the letter of representation to the Auditor as set out in paragraph 6.12 of the report
- The committee noted the Audit Findings Report of the auditors, BDO LLP, and approved the management responses in the BDO LLP action plan contained within that report.

172. INTERNAL AUDIT PROGRESS REPORT QUARTER 1

The Committee considered the report on the internal audit report 2017/18 quarter 1 as presented by Anne Woods, Head of Audit and Risk Management. The report detailed the work undertaken by Internal Audit in the quarter ending 30 June 2017 and focussed on the progress of audit coverage work relative to the approved plan.

Two audits, Osborne Grove and Appointeeships received a ‘nil’ assurance rating, which was a significant concern for the Committee.

In response to numerous questions raised by the Committee on the audit work undertaken on Osborne Grove it was confirmed that the Director of Adult Social Services was working to implement all of the recommendations by the end of October. It was noted that a formal follow up report by Internal Audit detailing the outcome would be presented to the Corporate Committee at the next meeting in November. The Committee were notified that out of the 11 priority 1 recommendations highlighted from the audit that 10 had been completed according to the service.

RESOLVED

The Corporate Committee noted the audit coverage and follow up work completed.

173. COUNTER-FRAUD UPDATE QUARTER 1

The Committee considered the Counter Fraud Update report 2017/18, quarter 1, as presented by Anne Woods, Head of Audit & Risk Management.
The report detailed the pro-active and reactive investigative work undertaken by the in-house counter fraud team. These investigations included work in such areas as tenancy fraud, gas safety-execution of warrant visits, tenancy block visits and Right to Buy. The Committee noted the outcome of these investigations.

RESOLVED
The Corporate Committee noted the counter-fraud work completed in the quarter to 30 June 2017.

174. ANY OTHER BUSINESS OF AN URGENT NATURE

There were no items of urgent business.

175. DATE AND TIME OF NEXT MEETING

Thursday 30th November 2017

CHAIR: Councillor Barbara Blake

Signed by Chair ………………………………..

Date …………………………………

Report for: Corporate Committee 30 November 2017

Item number: 7

Title: Updated Treasury Management Strategy Statement 2017/18 – 2019/20

Report authorised by: Clive Heaphy, Interim Chief Finance Officer (S151 Officer)

Lead Officer: Thomas Skeen, Head of Pensions
thomas.skeen@haringey.gov.uk 02 08489 1341

Ward(s) affected: N/A

Report for Key/ Non Key Decision: Non Key decision

1. Describe the issue under consideration

1.1 To present the updated Treasury Management Strategy Statement and Prudential Indicators for 2017/18 – 2019/20 to this Committee (following its scrutiny at Overview and Scrutiny Committee) before it is presented to Full Council for final approval.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 That the proposed updated Treasury Management Strategy Statement for 2017/18 to 2019/20 is agreed and recommended to Full Council for final approval.

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.

4.2 Haringey's Treasury Management Strategy Statement 2017/18 – 2019/20 was originally approved by Full Council on 27 February 2017. The Council is entering into a partnership with the GLA for the provision of certain treasury management activities, and therefore the need has arisen for the Treasury Management Strategy Statement to be updated in light of this.

The updated document will be presented to Overview and Scrutiny Committee, Corporate Committee, and Full Council for approval before any of the proposed changes are implemented.

5. Alternative Options Considered

5.1 The Council must present an updated Treasury Management Strategy Statement to be approved by Full Council (via Overview and Scrutiny and Corporate Committee), in order to implement the GLA partnership arrangements.

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. Corporate Committee is responsible for formulating the Treasury Management Strategy Statement for recommendation to full Council through Overview and Scrutiny Committee and in consultation with the Cabinet Member for Resources & Culture.

6.2. Following scrutiny the report will be considered by Corporate Committee and submitted to Full Council for approval. Any comments by Overview and Scrutiny will be reported to Corporate Committee.

6.3. On 14 March 2016 The Corporate Committee was presented a report focussing on the proposal to enter into a partnership with the GLA for the provision of treasury services. This partnership with the GLA offers access to a highly resourced specialist team who currently deal with a portfolio which is significantly bigger than the Council's, the partnership therefore offers the Council greater resilience and capability than the Council is able to maintain through in house treasury resources. The partnership will also deliver additional value for the Council in terms of interest earned on investments, as well as lower debt servicing costs due to the larger scale of the GLA treasury operations.

6.4. The summary set out in Appendix 1 is to bring to members' attention the key elements of the proposed strategy being considered.

7. Contributions to Strategic Outcomes

7.1 The treasury strategy will influence the achievement of the Council's financial budget.

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

Finance and Procurement

8.1 The approval of a Treasury Management Strategy Statement and prudential indicators are requirements of the CIPFA Treasury Management Code of Practice and CIPFA Prudential Code. The proposed strategy of minimising borrowing and continuing to make use of internal balances not only minimises costs, but also reduces the credit risk associated with investments, as the amount being invested is low.

8.2 New borrowing is projected during 2017/18 due to planned maturities and capital expenditure and it is proposed that the cost of refinancing be minimised by borrowing short term from local authorities to maintain liquidity and taking opportunities to fix borrowing rates should favourable opportunities arise.

Legal

8.3 The Council must make arrangements for the proper administration of its financial affairs and its power of borrowing is set out in legislations. The level of HRA Capital Financing Requirement must remain within the debt cap set by the Department of Communities and Local Government.

8.4 The Council is required to determine and keep under review its borrowing and in complying with this requirement it must have regard to the code of practice entitled the "Prudential Code for Capital Finance in Local Authorities" as published by CIPFA from time to time. In addition, the Council adopted the CIPFA Treasury Management Code of Practice in May 2002. The Code of Practice is at present under review.

8.5 As mentioned in this report the Code of Practice requires the Council to agree a Treasury Management Strategy Statement (TMSS) (including an Investment Strategy). In considering the report Members must take into account the expert financial advice available within it and any further oral advice given at the meeting of the Committee.

Equalities

8.6 There are no equalities issues arising from this report.

9. Use of Appendices

9.1 Appendix 1 – Summary of Treasury Management Strategy Statement
9.2 Appendix 2 – Draft Treasury Management Strategy Statement 2017/18 – 2019/20.

10. Local Government (Access to Information) Act 1985

10.1 Not applicable.

Appendix 1

Summary of Treasury Management Strategy Statement

The CIPFA Treasury Management Code of Practice requires all local authorities to agree a Treasury Management Strategy Statement and Prudential Indicators annually in advance of the financial year. The key areas of the strategy are how much borrowing the Council needs to do, where should temporary surplus cash be invested and the Prudential Indicators.

Borrowing

The Council borrows to fund capital expenditure. As part of the financial planning process, it is determined how much capital expenditure should be funded through borrowing. The Council has an existing borrowing portfolio and the amount it is proposed to borrow is calculated by reference to capital expenditure to be funded through borrowing and the loans maturing in the year. The expected amount of borrowing is set out in tables 1a & 1b for General Fund and HRA respectively. The strategy also sets out the sources of borrowing the Council could use.

Investments

The Council invests temporary cash surpluses on a daily basis. When considering where to invest, the Council considers security first – will the money be returned, then liquidity – how quickly will it be returned and then finally yield – what rate of interest will be earned.

The Council is required to agree a framework within which officers can make investments. This consists of a lending list of institutions with monetary and time limits (set out in Appendix 4, 5 and 6 of the strategy) and officers cannot lend the Council's monies to any institution not on this list. The second part of the framework is the setting of a minimum credit rating - this means that if any institution on the lending list falls below the minimum, then investments would cease and if possible monies would be withdrawn immediately.

Prudential Indicators

The Council is required to approve prudential indicators on an annual basis. There are two types – capital indicators and treasury management limits. They are shown throughout the report and summarised in Appendix 2. The capital indicators are designed to indicate to members the impact of borrowing to fund capital and are set as best estimates. The treasury management limits are different – they are limits which cannot be breached and are designed to put in a level of control over treasury management activities. Corporate Committee receive quarterly monitoring reports on the indicators and limits and Council receive a mid year and year end report on them.

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Appendix 2

London Borough of Haringey

Updated 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.

1.6 The Council is entering into a partnership with the GLA for treasury management services and this has necessitated the requirement for this strategy to be updated within the 2017/18 financial year before the new partnership arrangements are implemented.

2 External Context

2.1 **Economic background:** Commodity prices fluctuated over the first half of 2016/17, with oil falling below $45 a barrel before inching back up to $58 a barrel.

UK Consumer Price Inflation (CPI) index rose with the data print for August showing CPI at 2.9%, its highest since June 2013 as the fall in the value of sterling following the June 2016 referendum result continued to feed through into higher import prices. The new inflation measure CPIH, which includes owner occupiers' housing costs, was at 2.7%.

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

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

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

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

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

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

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

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

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

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

2.12 S&P also revised Nordea Bank's outlook to stable from negative, whilst affirming their long-term rating at AA-. The agency also upgraded the long-term rating of ING Bank from A to A+.

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

3 Local Context

3.1 On 31st March 2017, the Council held £347.0m of borrowing and £18.6m 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 Outturn £'000	31/03/2018 Estimate £'000	31/03/2019 Estimate £'000	31/03/2020 Estimate £'000
General Fund CFR	276,919	297,121	305,346	374,671	401,059	439,332
Less: Share of existing external debt and other long term liabilities	147,684	139,960	210,061	125,322	117,622	109,827
Internal Borrowing	129,235	131,318	95,285	100,785	100,785	100,785
Cumulative Net Borrowing Requirement	0	25,843	0	148,564	182,653	228,720

Table 1b: Treasury Position – HRA

	31/03/2016 Actual £'000	31/03/2017 Approved £'000	31/03/2017 Outturn £'000	31/03/2018 Estimate £'000	31/03/2019 Estimate £'000	31/03/2020 Estimate £'000
HRA CFR	271,096	292,666	271,096	278,721	278,721	278,721
Less: Share of Existing External Debt & Other Long Term Liabilities	197,981	191,454	182,483	174,346	167,298	160,346
Internal Borrowing	73,115	69,780	88,613	88,613	88,613	88,613
Cumulative Net Borrowing Requirement	0	31,432	0	15,762	22,811	29,763

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

	31/03/2016 Actual £'000	31/03/2017 Approved £'000	31/03/2017 Outturn £'000	31/03/2018 Estimate £'000	31/03/2019 Estimate £'000	31/03/2020 Estimate £'000
HRA CFR	271,096	292,666	271,096	278,721	278,721	278,721
HRA Debt cap	327,538	327,538	327,538	327,538	327,538	327,538
Headroom	56,442	34,872	56,442	48,817	48,817	48,817

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 Out-turn £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
General Fund	44,571	115,687	55,321	133,941	65,950	83,013
HRA	96,436	83,775	58,210	68,901	0	0
Total	141,007	199,462	113,531	202,842	65,950	83,013

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 Out-turn £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Capital receipts	9,275	25,798	2,385	1,045	5,000	5,000
Other grants & contributions	119,915	38,663	12,946	42,869	13,707	16,727
Government Grants	0	16,612	8,562	16,097	13,810	15,616
Reserves / Revenue contributions	7,452	61,700	56,768	59,186	0	0
Total Financing	136,642	142,773	80,662	119,197	32,517	37,343
Borrowing	4,365	56,689	32,868	83,645	33,433	45,670
Total	141,007	199,462	113,531	202,842	65,950	83,013

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 Out-turn	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Increase in Band D Council Tax	10.03	32.04	10.84	35.52	23.48	34.99
Increase in Average Weekly Housing Rents	0.42	1.10	0.09	0.69	0.00	0.00

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. The effect of net new borrowing is mitigated by the lower coupon compared with maturing debt. The 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 Outturn	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
	%	%	%	%	%	%
General Fund	1.85	1.93	1.86	2.33	2.58	2.92
HRA	9.02	8.88	8.50	8.21	7.54	7.32

4. Borrowing Strategy

4.1. The Council currently holds £270.6m of long term loans, a decrease of £12.6m on the previous year, as part of its strategy for funding previous years' capital programmes. The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing.

Objectives

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 (up to one year in length) to cover 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.

GLA Partnership

4.12 As part of the new treasury partnership with the GLA, the GLA will arrange certain borrowing activity on behalf of the Council in line with the above borrowing strategy. Prior to each month, the Council will provide the GLA with prescriptive and tightly controlled parameters within which they may operate to arrange borrowing over the following month for the Council. In 2017/18 it is envisaged that the GLA will only arrange short term borrowing on the Council's behalf for durations of less than 12 months. The GLA will be able to secure more favourable interest rates on borrowing than the Council due to the much larger scale of their treasury operations.

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 strategy will take two parts following the implementation of the new GLA treasury partnership:

Part 1 Investments through the GLA Partnership:

5.5. Haringey will be able to invest short term cash surpluses in the GLA's Group Investment Syndicate (GIS). The GIS has consistently outperformed the returns on investments that Haringey has achieved on in house investments. The GIS investments have a similar credit profile to those of Haringey's historic investments, but have far more diversification due to the scale of funds managed.

5.6. Following the implementation of the GLA partnership, Haringey will normally invest short term cash surpluses with the GIS: these funds will be accessible each business day so that the Council can draw down on any cash required to fulfil day to day requirements as necessary.

5.7. All investments made through the GIS will be subject to the GIS investment strategy set out in Appendix 6.

Part 2 Investments made through in house resources:

5.8. Although the Council will normally seek to utilise the GLA partnership to invest short term cash surpluses, the Council will also maintain the ability to undertake investment activities using in house resources, should the need arise to do so. For the avoidance of doubt, the paragraphs that follow in section 5 of this relate solely to any investment activity carried out by the Council's in house resource, and not to those carried out through the GLA partnership arrangements.

5.9. The majority of the Council's 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.

5.10. 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

5.11. 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.

5.12. 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".

5.13. 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

5.14. 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.

5.15. 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 Finance 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

5.16. 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.

5.17. 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.

5.18. 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.

Other Information on the Security of Investments

5.19. 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.

5.20. 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.

Investment Limits

5.21. 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 Out-turn £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Borrowing	283,233	468,174	347,046	583,392	609,780	648,053
Other Long-term Liabilities	49,329	60,057	45,498	53,714	48,387	42,874
Total	332,562	528,231	392,544	637,105	658,168	690,928

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.

Table11: Operational Boundary

	2015/16 Actual £'000	2016/17 Approved £'000	2016/17 Out-turn £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Borrowing	283,233	418,174	347,046	533,392	559,780	598,053
Other Long-term Liabilities	49,329	54,598	45,498	49,582	44,665	39,576
Total	332,562	472,772	392,544	582,974	604,446	637,630

6.7. The Chief Finance Officer has delegated authority, 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-17	31-Mar-17
	%	%	%	LOBO adjusted %
under 12 months	0%	60%	26%	47%
12 months & within 24 months	0%	40%	3%	17%
24 months & within 5 years	0%	40%	8%	8%
5 years & within 10 years	0%	40%	6%	6%
10 years & within 20 years	0%	40%	3%	3%
20 years & within 30 years	0%	40%	3%	0%
30 years & within 40 years	0%	50%	26%	15%
40 years & within 50 years	0%	50%	24%	3%
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 Council 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 took 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. 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 £15m 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 long term 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 Finance Officer, 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 Outturn £'000	31-Mar-18 Estimate £'000	31-Mar-19 Estimate £'000	31-Mar-20 Estimate £'000
Existing External Borrowing commitments:				
PWLB	45,882	41,723	38,120	34,567
Market loans and Local Authorities	118,681	42,281	42,281	42,281
Total External Borrowing	164,563	84,004	80,401	76,848
Long Term Liabilities	45,499	41,318	37,221	32,980
Total Gross External Debt	210,062	125,322	117,622	109,828
CFR	305,346	374,671	401,059	439,332
Internal Borrowing	95,284	100,785	100,785	100,785
Cumulative Borrowing requirement	0	148,564	182,653	228,720

B: HRA Pool

	31-Mar-17 Outturn £'000	31-Mar-18 Estimate £'000	31-Mar-19 Estimate £'000	31-Mar-20 Estimate £'000
Existing External Borrowing commitments:				
PWLB	99,764	91,627	84,579	77,626
Market loans	82,719	82,719	82,719	82,719
Total External Borrowing	182,483	174,346	167,298	160,345
CFR	271,096	278,721	278,721	278,721
Internal Borrowing	88,613	88,613	88,613	88,613
Cumulative Borrowing requirement	0	15,763	22,811	29,763

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	133,941	65,950	83,013
	HRA	68,901	0	0
	TOTAL	202,842	65,950	83,013

No.	Prudential Indicator	2017/18	2018/19	2019/20
2	Ratio of financing costs to net revenue stream	%	%	%
	General Fund	2.33	2.58	2.92
	HRA	8.21	7.54	7.32

No.	Prudential Indicator	2017/18	2018/19	2019/20
3	Capital Financing Requirement	£'000	£'000	£'000
	General Fund	374,671	401,059	439,332
	HRA	278,721	278,721	278,721
	TOTAL	653,392	679,780	718,053

No.	Prudential Indicator	2017/18	2018/19	2019/20
4	Incremental impact of capital investment decisions	£	£	£
	Band D Council Tax	35.52	23.48	34.99
	Weekly Housing rents	0.69	0.00	0.00

No.	Prudential Indicator	2017/18	2018/19	2019/20
TREASURY MANAGEMENT LIMITS				
5	Borrowing Limits	£'000	£'000	£'000
	Authorised Limit	583,392	609,780	648,053
	Operational Boundary	533,392	559,780	598,053

No.	Prudential Indicator	2017/18	2018/19	2019/20
6	HRA Debt Cap	£'000	£'000	£'000
	Headroom	48,817	48,817	48,817

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	£10m	£10m	£10m

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 September 2017

- The Monetary Policy Committee once again voted 7-2 in favour of maintaining the bank rate at 0.25%. However, the Committee meeting minutes for September suggested that the upside risks to Bank Rate had increased, noting that the majority of MPC members judged that the withdrawal of monetary stimulus was likely to be appropriate to return inflation to target.

- This potential rise in Bank Rate is dependent on policymakers seeing continued erosion of economic capacity and a gradual rise in underlying inflationary pressure.

- All members agreed that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

- The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. UK Q2 2017 GDP growth was 0.3% after a 0.2% expansion in Q1. The initial expenditure breakdown showed weakness in consumption, business investment and net trade. Both consumer and business confidence remain subdued.

- Household consumption growth, the driver of UK GDP growth, has softened following a contraction in real wages. Savings rates are at an all-time low, with little scope for further reduction to smooth consumption. When inflation eventually eases, savings are likely to be replenished, further diverting money away from consumption.

- Some data has held up better than expected, with unemployment falling to an all-time low and house prices remaining relatively resilient.

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

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

- Geo political risks remains elevated and helps to anchor safe haven flows in the UK government bond (gilt) market.

Forecast:

- The MPC have changed their rhetoric, implying a rise in Bank Rate in 'the coming months'. Arlingclose is not convinced the UK's economic outlook justifies such a move at this stage, but the Bank's interpretation of the data seems to have shifted.

- This decision is still very data dependent and Arlingclose are for now maintaining their central case for Bank Rate at 0.25% whilst introducing near-term upside risks to their forecasts.

- The Arlingclose central case is for gilt yields to remain broadly stable in the medium term, but there may be near term volatility due to shifts in interest rate expectations.

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Average
Official Bank Rate														
Upside risk	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.44
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	0.00	0.00	0.00	0.00	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.15
3-month LIBID rate														
Upside risk	0.30	0.30	0.30	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.53
Arlingclose Central Case	0.25	0.25	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.29
Downside risk	-0.10	-0.10	-0.15	-0.10	-0.10	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.17
1-yr LIBID rate														
Upside risk	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.65	0.65	0.32
Arlingclose Central Case	0.50	0.50	0.50	0.50	0.60	0.70	0.70	0.70	0.70	0.70	0.70	0.60	0.60	0.62
Downside risk	-0.15	-0.20	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.10	-0.10	-0.25
5-yr gilt yield														
Upside risk	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55
Arlingclose Central Case	0.55	0.55	0.60	0.60	0.60	0.65	0.70	0.75	0.80	0.85	0.90	0.95	0.95	0.73
Downside risk	-0.20	-0.20	-0.25	-0.25	-0.25	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.33
10-yr gilt yield														
Upside risk	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55
Arlingclose Central Case	1.05	1.02	1.05	1.05	1.05	1.10	1.15	1.20	1.25	1.30	1.35	1.40	1.40	1.18
Downside risk	-0.20	-0.35	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.15	-0.15	-0.24
20-yr gilt yield														
Upside risk	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.70	0.70	0.57
Arlingclose Central Case	1.60	1.60	1.60	1.60	1.60	1.65	1.70	1.75	1.80	1.85	1.90	1.95	1.95	1.73
Downside risk	-0.30	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.34
50-yr gilt yield														
Upside risk	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.85	0.85	0.60
Arlingclose Central Case	1.50	1.50	1.50	1.50	1.50	1.55	1.60	1.65	1.70	1.75	1.80	1.85	1.85	1.63
Downside risk	-0.30	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.50	-0.50	-0.37

Appendix 4

Counterparty Policy for in house treasury activities

The investment instruments identified for use in 2017-18 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 made in house

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	6 months
	United Kingdom	LLOYDS BANK PLC	6 months
	United Kingdom	BARCLAYS BANK PLC	100 days
	United Kingdom	COVENTRY BUILDING SOCIETY	6 months
	United Kingdom	HSBC BANK PLC	6 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
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

Appendix 6

GREATER**LONDON**AUTHORITY

Dated: 1st April 2017

GREATER LONDON AUTHORITY

and

LONDON FIRE AND EMERGENCY PLANNING AUTHORITY

and

LONDON LEGACY DEVELOPMENT CORPORATION

and

MAYOR'S OFFICE FOR POLICING AND CRIME

and

LONDON PENSIONS FUND AUTHORITY

GIS INVESTMENT STRATEGY 2017-18

Contents

GIS Investment Strategy 2017-18

This investment strategy applies to investments pooled under GIS 1 (short term liquidity) and GIS 2 (strategic reserves)

Limits and Compliance

1.0 **All limits, unless explicitly stated otherwise, refer to the composition of the daily balance of the GIS**; for compliance purposes, all limits will be assessed daily.

2.0 The making of any investment which causes a breach of limits is not permitted and constitutes an **active exception.**

3.0 **Active exceptions of any size will be reported immediately** upon identification to the CIO, Syndics and their nominated substitutes. Relevant committees or boards will be notified as specified in each Participant's TMSS.

4.0 Additionally, breaches of daily limits may occur due to changes in the GIS balance or the credit assessment of existing investments, including the credit status of the country of domicile. Such an occurrence constitutes a **passive exception**. Passive exceptions will be reported immediately to the CIO, the GLA's statutory CFO and his deputy. Subsequent reporting will be threshold based as follows:

Passive Exception Level (lower of)	Temporary: ≤ 3 consecutive days	Persistent: >3 days
<5% or £25m	Logged and reported quarterly to Syndics within 1 month of quarter end	Logged and reported quarterly to Syndics within 1 month of quarter end
5-10% or £50m	Logged and reported quarterly to Syndics within 1 month of quarter end	Reported to Syndics immediately
>10% or £50m	Reported to Syndics immediately	Reported to Syndics immediately

The percentage limits above apply to total daily balance of the GIS or the total number of days in the case of limits expressed as days.

5.0 As an additional, prudent measure, forward looking diversification limits for new, internally-managed investments shall be maintained. These limits **apply to the forecast average GIS balance over the life of the investment being considered**; for operational expediency the forecasts shall be produced up to the last day of the following maturity ‘buckets’ given in days and limits applied accordingly:

O/N	2 - 7	8 - 30	31 - 60	61 - 90	91 - 120	12 - 150	151-180	181-210	211-240	241-270	271-300	301-330	331-397	398-730

6.0 If an investment is made in breach of these forward-looking limits, it is an active breach of investment strategy and will be reported per 3.0. Where changes in cash flow forecasts or counterparty and/or instrument status result in forward-looking limits being exceeded by existing investment positions, the CIO will be notified, who may then modify investment tactics to reduce the likelihood of a passive exception as defined in 4.0 occurring. Such an occurrence does not constitute an exception of any kind and need not be reported further.

7.0 Mitigating actions for all breaches will in the first instance be taken at the discretion of the CIO (or the GLA’s statutory CFO, or his deputy). Such decisions must be supported by an analysis of the costs and benefits of attempting to reduce the overexposure in question versus tolerating it. In all cases a file note of the decision will be retained and circulated to the Syndics. A majority of the Syndics may instruct alternative action.

Risk Appetite Statement

8.0 Capital preservation is the primary GIS objective at the portfolio level, followed by provision of liquidity to meet Participants’ cash flow needs.

9.0 In order to deliver best value on public funds, the Participants are prepared to take some investment risk to the extent outlined below, where such risk is rewarded by yields above UK government securities held to maturity.

10.0 The risk of loss through default in the entire portfolio (or any subsection delegated to an external manager) should not exceed risk of loss through default equivalent to a 1 year exposure to a typical AA- rated issuer.

11.0 No individual instrument/investment should pose a greater risk of loss through default than a 90 day exposure to a typical BBB issuer.

12.0 The Participants will tolerate price volatility where there is an expectation of holding an investment to maturity; where the expectation is that sale before maturity is likely or where the investment is in a variable NAV fund, the combined risk of loss through default and crystallised falls in price should not exceed the risk tolerance specified in 10.0.

13.0 This strategy sets out risk controls and limits that, in the opinion of the Participants, deliver these objectives.

14.0 Alternative controls and limits, save for the overarching requirements of 15.0-17.0 and 21.0, may be used by external managers appointed in accordance with 18.0, if those limits are judged by the Syndics, on the advice of the CIO or other independent professional advice, to be appropriately effective.

Permissible Investments

15.0 All investments must be Sterling-denominated financial instruments

16.0 Specified Investments (i.e. 'low risk' instruments as defined by Statutory Guidance) shall constitute at least 50% of the portfolio at any time.

17.0 Approved Specified (S) and non-Specified (NS) Investments:

Investment type	Eligibility criteria	≤ 1 year to maturity at time of investment	> 1 year to maturity at time of investment	Maximum total exposure as a proportion of daily balance
Senior Unsecured Debt • UK Gilts and T-Bills • Deposits • Call Accounts • Notice Accounts • Certificates of Deposit • Loans • Commercial Paper • All other senior unsecured bonds	Issuer (and security where separately rated) Investment Grade (IG) defined per 36.0 OR UK Government (including the Debt Management Account Deposit Facility, Local Authorities and bodies eligible for PWLB finance) OR Issuer not meeting general criteria but instruments explicitly guaranteed by IG entity or sovereign national government meeting acceptable sovereign ratings per 32.0	S	NS	100%
Constant Net Asset Value Money Market Funds	Fitch AAA_{mmf} or above See 36.0 for equivalents from other agencies. Daily liquidity	S	*N/A*	100% *Not more than 20% per fund*
Other Collective Investment Schemes structured as Open Ended Investment Companies (**OEICs**)	Fitch AAA_{f} or equivalent from other agencies per 36.0	NS	*Not permitted.*	20%

Investment type	Eligibility criteria	≤ 1 year to maturity at time of investment	> 1 year to maturity at time of investment	Maximum total exposure as a proportion of daily balance
Senior UK Prime or Buy to Let **Residential Mortgage Backed Securities** (RMBS)	Bond rating Fitch AA+$_{sf}$ or above or equivalent from other agencies per 36.0	NS	NS	20%
Covered bonds	Bond rating Fitch AA+$_{sf}$ or equivalent from other agencies per 36.0 AND Issuer rated Fitch A- or above or equivalent from other agencies per 36.0	NS	NS	20%
Repurchase Agreements (Repo)	Counterparty meets senior unsecured criteria AND proposed collateral (Min 100%) itself meets permitted investment criteria Or Collateralisation is >102% with UK Gilts / T-Bills	S – UK gilts or T-Bills AND Counterparty meets senior unsecured criteria NS – other	*Not permitted.*	S – 100% NS – 20%, and not more than 10% with counterparties not meeting senior unsecured criteria.

18.0 The Syndics may delegate the management of a portion, not exceeding the forecast minimum GIS balance for the next 12 months, of the GIS to external fund managers if this is deemed prudent.

Liquidity and Maturity Limits

19.0 Portfolio Weighted Average Maturity (WAM) ≤ 91days (GIS 1) ; ≤ 3 years (GIS 2)
[Maturity here refers to the final expected maturity or if relevant the first call option of the instrument; in the case of funds the maturity will be the redemption period; in the case of call or notice accounts, the notice period].

20.0 Sub-portfolio (managed by an external manager) WAM ≤ 3years
Individual maturity limit, internally managed instruments: ≤ 2 years

[In the exceptional event of the internal team taking possession of repo collateral, e.g. gilts that exceed this limit, the expectation is that these will be sold at the earliest opportunity, subject to market conditions]

21.0 Individual maturity limit, externally managed instruments: ≤ 5 years
[Note – in the case of RMBS these limits apply to the date by which all principal is expected to received, based on analysis of the underlying mortgage pool and indicated call dates – the legal maturity date, based on the longest dated mortgage in the relevant pool, is not limited given the extremely low probability of the bond failing to be repaid by that time;

In the case of covered bonds, these limits apply to the expected maturity date, which may not include the exercise of the extension option]

22.0 Limit for total exposure >12months: ≤25% of total daily balance.

23.0 Forward Dealing limit: aggregate value of outstanding forward deals ≤20% of daily balance; forward deals must not be struck with an individual counterparty if the limit forecasts defined in 5.0 indicate this is likely to cause an exception. See also 42.0 for credit risk management of forward deals.
[The GIS defines 'forward' as negotiated more than 4 banking days in advance of delivery. The CIO may make exceptions to this limit where the counterparty is a GIS Participant and the forward period is less than 3 months]

24.0 Internally managed investments should only be made where GIS cash flow forecasts or best estimates suggest the instrument may be held to maturity. Externally managed investments may be purchased with lower certainty subject to the provisions of 12.0

Counterparty Concentration Limits

(Apply individually and cumulatively to groups)

25.0 The total exposure to a group of companies (a parent company and any subsidiaries, i.e. companies of which it owns 20% or more of authorised share capital) shall not exceed the maximum individual exposure limit of the constituents of the group.

26.0 Maximum unsecured exposure to company or group: ≤5% (subject to enhancements below)

27.0 Enhanced limits apply for UK Government (including the Debt Management Account Deposit Facility, Local Authorities and bodies eligible for PWLB finance) and institutions covered by Capita's Colour Banding Methodology:

Cash Exposure Limits – applied to individual counterparties		
Band	**Overnight**	**> 1 day**
UK Sovereign	100%	100%
Yellow	50%	25%
Purple	50%	20%
Orange	25%	15%
Red	25%	10%
Green	10%	5%
No Colour	5%	5%

28.0 The Bands above are calculated based on a range of credit ratings data, including published rating Watches and Outlooks. Where the price of 5 year Credit Default Swaps for a given counterparty exceeds barrier levels proposed by Capita with regard to market history, the Band will normally be adjusted downwards. The CIO may postpone such adjustments in consultation with the Syndics, for instance, if it is felt that changes in CDS prices do not reflect an increase in the individual credit risk of a particular counterparty.

29.0 Additionally, an enhanced overnight limit of 100% applies to the GIS banker, RBS.

30.0 If, in the judgement of the Chief Investment Officer, the structure of a bond associated with a local authority is such that the credit risk is not identical to a bilateral loan with that authority, the rating of the bond itself will be used and the 5% limit will apply.

31.0 Maximum aggregate exposure including indirect or collateralised exposures:

Security Type	Cumulative Enhancement
Non-specified Repo	2.5%
Covered Bond	5%
RMBS	7.5%
Specified Repo	10%

[These enhancements are cumulative so the maximum possible total enhancement is 10% above is the counterparty's senior unsecured limit]

Geo-political risk limits [under review]

32.0 Maximum exposures to non-UK institutions apply by country, based on the relevant sovereign ratings outlined in the table below:

Max. Aggregate Exposure (%)	Fitch Sovereign Rating	S&P Sovereign Rating	Moody's Sovereign Rating
25	AAA	AAA	Aaa
15	AA+	AA+	Aa1
5	AA	AA	Aa2

33.0 Where more than one rating is available the lowest common denominator will be used, unless in the opinion of the CIO there is an overriding reason to favour or disregard a particular agency's view. The use of this discretion will be reported immediately to the Syndics.

34.0 If 5y CDS spreads for the relevant country's central government bonds exceed barrier levels from time to time agreed by the Syndics on the advice of Capita or the CIO, the aggregate exposure limit will normally be reduced to that of the lower rating, or in the case of a AA sovereign, further investment will be suspended. The CIO may postpone such adjustments in consultation with the Syndics.

35.0 The Participants recognise that the approach above does not perfectly mitigate geopolitical risks, therefore the CIO is empowered to suspend investment in any particular country should concerns arise. The use of this discretion will be reported immediately to the Syndics.

Credit Risk Limits

36.0 Permitted issuer credit ratings and equivalence mappings

Senior Unsecured Bond and/or Issuer Ratings					
Long term			Short term		
Fitch	**Moody's**	**S&P**	**Fitch**	**Moody's**	**S&P**
AAA	Aaa	AAA			
AA+	Aa1	AA+			
AA	Aa2	AA	F1+	P-1	A-1+
AA-	Aa3	AA-			
A+	A1	A+			
A	A2	A	F1	P-1	A-1
A-	A3	A-			
BBB+	Baa1	BBB+			
BBB	Baa2	BBB	F2	P-2	A-2

Structured Finance Ratings		
Fitch	**Moody's**	**S&P**
AAA$_{sf}$	Aaa (sf)	AAA (sf)
AA+$_{sf}$	Aa1(sf)	AA+ (sf)

Money Market Fund Ratings		
Fitch	**Moody's**	**S&P**
AAA$_{mmf}$	Aaa-mf	AAAm

Other Permitted Fund Ratings		
Fitch	**Moody's**	**S&P**
AAA$_{f}$	Aaa-bf	AAAf

37.0 Where more than one rating is available the lowest common denominator will be used, unless in the opinion of the CIO there is an overriding reason to favour or disregard one particular agency's view. The use of this discretion will be reported immediately to the Syndics.

38.0 For internally managed investments Credit Factors will also be calculated individually and Portfolio Credit Factor (PCF) on a book value weighted average basis with reference to the following tables:

Credit Factors based on Issuer Default Rating (Fitch and Fitch Equivalents) Use instrument rating or if not rated, rating of Issuer.									
Days	AAA	AA+	AA	AA−	A+	A	A−	BBB+	BBB
O/N	0.01	0.01	0.01	0.01	0.02	0.03	0.04	0.07	0.10
2-7	0.02	0.04	0.06	0.10	0.15	0.20	0.30	0.50	0.80
8-30	0.10	0.15	0.25	0.40	0.60	0.75	1.30	2.10	3.50
31-60	0.20	0.30	0.50	0.80	1.20	1.50	2.60	4.20	7.00
61-90	0.25	0.50	0.75	1.25	1.50	2.50	5.00	7.50	10.00
91-120	0.35	0.65	1.00	1.50	2.30	3.30	6.60	10.00	13.50
121-150	0.40	0.80	1.25	2.10	2.90	4.20	8.30	12.50	16.50
151-180	0.50	1.00	1.50	2.50	3.50	5.00	10.00	15.00	20.00
181-210	0.60	1.20	1.75	3.00	4.00	5.80	11.70	17.50	23.50
211-240	0.70	1.30	2.00	3.30	4.70	6.60	13.30	20.00	27.00
241-270	0.75	1.50	2.25	3.75	5.25	7.50	15.00	22.50	30.00
271-300	0.80	1.70	2.50	4.20	5.80	8.30	16.70	25.00	33.50
301-330	0.90	1.85	2.75	4.60	6.50	9.20	18.50	27.50	37.00
331-397	1.00	2.00	3.00	5.00	7.00	10.00	20.00	30.00	40.00
398-730	2.70	5.30	8.00	13.00	19.00	27.00	43.00	69.00	106.00

Other treatments	
UK Government (including the Debt Management Account Deposit Facility, Local Authorities and bodies eligible for PWLB finance)	Treat as AAA above Except: If, in the judgement of the Chief Investment Officer, the structure of a bond associated with a local authority is such that the credit risk is not identical to a bilateral loan with that authority, the rating of the bond itself will be used
Instruments explicitly guaranteed by IG entity or sovereign national government meeting acceptable sovereign ratings per 32.0	Use Credit Factors appropriate to guarantor strictly for the period of the guarantee, reverting to rating of issuer thereafter
Repo	Use Credit Factors appropriate to repo counterparty, not collateral; Unrated or sub-BBB counterparty with >102% Gilt/T-bill collateralisation – treat as BBB
Approved fund, e.g. AAA_{mmf}	Use Credit Factor of 1.5
Covered Bonds or RMBS	Use Credit Factor of 5

39.0 Where a counterparty's (or its country of domicile's) 5 year CDS spreads exceed barrier levels from time to time agreed by the Syndics on the advice of Capita or the CIO, the Credit Factor used for the PCF calculation will be from the factor set of one or more notches below the issuer or security rating (e.g. If a AA+ counterparty's CDS spread exceeds the first barrier level, AA factors will be used to the PCF).

40.0 The following limits apply at all times:

- Maximum Credit Factor of any single security: 10.00
- Maximum PCF: 5.00

41.0 The PCF will be calculated and recorded daily.

42.0 The total contractual exposure of any transaction with counterparty, i.e. in the case of a forward deal, the forward period PLUS the eventual length of the deal should be considered at the time of the transaction and compared to table 38.0 – the Credit Factor for the total exposure period at the counterparty's credit rating at the time of the deal must not exceed 10.

Deposit Facility of Last Resort

43.0 In the circumstance of being unable to place funds with counterparties within approved limits, the Investment Manager will attempt to place the surplus funds with the Debt Management Account Deposit Facility (DMADF). This facility may, of course, also be used in other circumstances if it offers rates above equivalent market levels, though in past experience this is unlikely.

44.0 In the instance of technical failures or unexpected monies being received after the cut-off time for sending payments, the GLA, as the GIS Investment Manager, will have no choice but to leave the funds with the GLA's bankers, RBS. In such circumstances, the funds will be moved to the GLA's call account at RBS.

Custody Arrangements

45.0 Internally or externally managed securities may be held by a Custodian; in such circumstances:

a. The Custodian or any Sub-Custodian employed by the Custodian (whichever actually holds the GIS securities) must be Fitch A- rated or equivalent
b. Any cash held by the Custodian or any Sub-Custodian pending transactions must be properly identified as an unsecured deposit and consolidated into the PCF calculation
c. The Custodian or any Sub-Custodian shall not be entitled to invest such cash in any money market fund or other product without the permission of the GIS. Any such investment must meet the criteria of 17.0.

46.0 The above applies to any Custodian or Sub Custodian holding collateral on behalf of the GIS in respect of a Repo transaction. Note – 'Held in Custody' Repos where collateral is held at the borrower's custodian in the borrower's title are NOT permitted.

CIO Discretions

47.0 The CIO may restrict the use of any counterparty for any reason related to the management of risk, including reputational risk to any Participant. Such restrictions may be overturned by any majority of Syndics.

48.0 When postponing CDS-driven adjustments to exposure limits, the Group Treasury team will notify the Syndics of the CIO's decision immediately. Syndics will have until 12pm to register concerns otherwise the decision will be implemented for that day. Any majority of Syndics may reverse the decision subsequently.

49.0 All above mentioned CIO discretions may also be exercised by the GLA's statutory CFO and his deputy.

Responsible Investment

50.0 All investment will be made in accordance with the following policy with respect to fossil fuel companies:

GLA Group Responsible Investment Statement on Climate Change

The Greater London Authority is committed to a number of principles which guide their investment decisions. The Greater London Authority will consider non-financial factors when investing, such as alignment of the activities of investment counterparties with Mayoral policy on environmental and social impact, providing no compromise of fiduciary duty arises from such considerations. Regarding climate change in particular, the Authority will not actively invest in companies or projects ("fossil fuel companies" and "fossil fuel projects") that derive more than 10% of revenues from the extraction of fossil fuels, ignore the impact and risks associated with the use of fossil fuels, and are unable to demonstrate a commitment to achieving environmental benefits, in particular through a plan to limit climate change in line with the Paris Agreement:
http://unfccc.int/paris_agreement/items/9485.php

The Authority notes a distinction between Natural Gas, which will continue to play a valuable role out to 2030, both for heating and for electricity generation, and other fossil fuels; nevertheless the Authority would expect a demonstrable commitment to achieving environmental benefits from companies involved in gas extraction.

In order to assess the level of commitment to achieving environmental benefits, the Authority will make use of the Transition Pathway Initiative, as adopted by a range of leading institutional investors:
http://www.lse.ac.uk/GranthamInstitute/tpi/about/

Where such investments are already in place, and opportunities for engagement and reform of the company or project do not exist, the Authority will make all reasonable efforts to divest provided that this will result in no material financial detriment (either through cost or increased investment risk).

The Authority views divestment and avoidance of any long term financial exposure to such companies or projects as entirely consistent with its fiduciary duty to protect and obtain best value from public funds. This is also consistent with the Mayor of London's climate change goals and commitment to ensuring that optimum low carbon investment decisions are taken, to help to maximise social and economic benefits. .

To explain these statements concisely the Authority makes the following definitions, with examples of application:

"invest" – in this context, investment means the acquiring ownership of all or part of a fossil fuel company or otherwise providing financial support to such a company or any project which ignores the environmental impact and risks associated with Fossil Fuels;

"actively" – means making a choice to invest based on a direct assessment of that company or project or to knowingly create a long term economic interest in such companies or projects.

"environmental benefits" – means reducing net carbon emissions over time.

"opportunities for engagement" – means the ability to meaningfully influence the strategy or development of the company or project. This might be through the exercise of voting rights, either individually or alongside like-minded investors or other routes;

"ignoring the impact and risks associated with fossil fuels" – means continuing or developing new business activities contributing to climate change through fossil fuel emissions or environmental damage resulting from relevant fuel extraction without regard to development of new and sustainable alternatives or other transition planning towards a lower environmental impact.

"long term financial exposure" – means exposure for more than 12 months, either through actual investment or commitments to invest (contingent or otherwise) where the length of the commitment plus the expected duration of the investment exceeds this period.

Examples of application:

- Making a loan to a fossil fuel company in order fund expansion of conventional extraction activities would meet the definition of investment for these purposes; making a loan to a fossil fuel company to develop an alternative technology would not.
- Purchasing a fossil fuel company bond, from another bond holder would not meet the definition as it does not lead to ownership or engagement, nor provide new financial assistance to the company. Participating in the purchase of newly issued long term bonds may or may not classify as investment depending on the proposed use of proceeds.
- Commercial Paper or other debt instruments with less than a year to maturity would not constitute investment in this context as there is no associated ownership or engagement,

nor do the longer term risks associated with exposure to unsustainable industries (which this strategy seeks to mitigate) apply over the life of such instruments.

- Directly purchasing equity in a fossil fuel company would constitute an active investment.
- Buying units in an exchange-traded tracker fund, where the index is known to contain fossil fuel companies may or may not constitute an active investment. It would be active if the intent was for the allocation to be a permanent part of the investment portfolio *and* the composition of the index was weighted more than 10% towards fossil fuel companies; it would not if the purchase was made to maintain broad market exposure, for instance during a transition between active portfolios. In any circumstance, the Authority seeks to influence the composition of the market (reflected in passive investments) through its own active decisions and those of likeminded partners.
- Circumstances involving conglomerates with a mixture of subsidiaries, some of which may meet the fossil fuels company definition (whereas others may, for example, be focused on renewable energy), would be considered on a case-by-case basis, with investment being possible if the overall corporate strategy appears to be environmentally sustainable and offset the financial risks this statement seeks to mitigate.

Explanatory Notes

Background to the GIS Investment Strategy

i. The GIS is a vehicle for investing pooled short term cash balances belonging to 'participants', currently the Greater London Authority (GLA), the London Fire and Emergency Planning Authority (LFEPA), the London Legacy Development Corporation (LLDC), the London Pensions Fund Authority (LPFA) and the Mayor's Office for Policing and Crime (GLA). The GLA acts as the Investment Manager under the supervision of the Syndics (the participants' respective chief financial officers).
ii. By pooling resources, the participants can achieve economies of scale through larger individual transactions; can exploit the greater stability of pooled cash flows to obtain better returns and can achieve greater levels of diversification.
iii. A risk sharing agreement ensures risk and reward relating to each investment within the jointly controlled portfolio are shared in direct proportion to each participant's daily investment.
iv. The Investment manager (the GLA) operates the GIS cash balances in accordance with the GIS Investment Strategy

4.0

i. Reporting thresholds are capped at £25m and £50m, these limits are conservative based on the expected scale of the GIS – based on the GIS composition as at 30 June the absolute exposure reporting thresholds for each participant would be:

£m	25	50
GLA	20.4	40.8
LFEPA	0.2	0.5
MOPAC	0.2	0.3
LPFA	2.8	5.7
LLDC	0.2	0.4

17.0

i. The concept of "Specified" and "Non–Specified" Investments is defined in the DCLG Guidance on Local Government Investments (revised 2010).

<u>Specified Investments</u>

ii. An investment is a Specified investment if all of the following apply:

a) The investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling;

b) The investment is not a long-term investment (i.e. due or required to be repaid within 12 months);
c) The making of the investment is not defined as capital expenditure by virtue of regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (SI 3146 as amended) (i.e. the investment is not share capital in a body corporate)
d) The investment is made with a body or in an investment scheme of high credit quality (defined by the minimum credit ratings outlined in table 17.0) or with one of the following public-sector bodies:

- The United Kingdom Government
- A local authority in England or Wales (as defined in section 23 of the 2003 Local Government Act) or a similar body in Scotland or Northern Ireland
- A parish council or community

Non Specified Investments

iii. Non-Specified Investments are defined as investments assessed by the GIS Participants to be appropriate and prudent, but not meeting the one or more of the Specified Investments criteria.

New instruments introduced since previous strategy

iv. Reflecting increased market risk and difficulties in diversifying, this strategy introduces the new and highly secure option of UK Residential Mortgage Backed Securities, which provides a genuine diversification away from institutional credit risk and additional options for secured lending, enabling limits to be increased with existing counterparties in exchange for security of some sort of asset in the event of the borrower becoming insolvent.

v. RMBS

- Since the approval of the GIS Participants' Treasury Strategies, which all set out the rationale for senior UK Prime and Buy to Let RMBS, the GLA has appointed two managers to manage £100m each of GLA core cash in this asset class.

  Almost half of the investments were made prior to the market turbulence following the EU referendum, enabling the GLA to reduce its exposure to banks; additionally, this action has provided an excellent market test of extreme conditions for the asset class. Unlike a number of banks and the UK itself, the ratings of UK RMBS were untouched by the negative market perception of the UK's actions and liquidity in the asset class was no worse than any other within the current investment strategy. Yield remains higher than other available options.

- 15 UK Banks and Building Societies have over £100bn of AAA-rated RMBS outstanding, via bankruptcy-remote issuing companies, which ensures full credit de-linkage

- This report therefore recommends inclusion of UK RMBS in the GIS subject to the limits proposed and the overall GIS WAM limit, in order to reduce risk and improve returns. The 20% limit reflects the fact that the GIS currently has a 91 day WAM limit and most of these instruments will have a WAM > 1 year.

- Only senior RMBS are permitted at this stage, i.e. the GIS has first priority over the cash flows from the underlying pools of thousands of diversified UK residential prime or buy-to-let mortgages. These to date have always been AAA rated at inception with some isolated cases of downgrades to AA+ due to lower ratings of associated counterparties within the RMBS structure such as the bank servicing the mortgages, rather than the underlying mortgages, reflecting the increased risk of possible payment disruption should the servicing bank fail (though no increased risk of non-payment). The strategy does not exclude these downgraded senior notes as the risk of loss is still very low but it should be noted that changes to RMBS structures since 2008 make this circumstance very unlikely in future.

- The cash flows from RMBS are generated by both interest and principal repayments of the mortgages in the relevant pool. In particular, when homeowners refinance (or move house) the pool experiences principal inflows, which are then passed through to the RMBS bondholders (which the most senior tranches, proposed here, receive before all others). Refinancing typically occurs much earlier than the final date of the mortgage, therefore it is not proposed to limit the legal maturity of RMBS, as these are set with reference to the longest dated mortgage in the pool and do not reflect the expected maturity date. In addition, RMBS deals are structured with financial penalties for the issuer beyond the expected maturity date, to ensure that deals mature as expected.

- The strong cash flow characteristics of senior RMBS mean that principal is repaid incrementally, therefore a proposed WAM limit of 3 years per security for the whole RMBS portfolio is proposed alongside a 5 year expected final maturity limit per security.

vi. Covered Bonds

- Covered bonds are also secured on mortgage assets, but do not depend on mortgages for the cash flows. They are more like a normal bond issued by the relevant bank or building society except that should the issuer default, the covered bond holders will have security over the banks’ mortgage assets, which could be sold to another bank to meet the obligation.

- Whilst the credit risk is clearly lower than unsecured lending to the issuer, the situation is different to RMBS and when the issuer is downgraded, covered bonds are typically downgraded too. Accordingly, the strategy does not permit the use of covered bonds issued by counterparties who do not themselves meet approved investment criteria.

- Another feature of covered bonds are extension clauses, typically of 2 years. For this reason, the strategy only permits the use of counterparties of A- rating or above to allow for downgrades over the extension period, should it be invoked.

- Because they are lower risk than unsecured lending to a given counterparty, covered bond yields are generally lower. Accordingly, the main circumstance in which they would be used in the current environment is to increase exposure to a strong and well understood counterparty already at its unsecured concentration limit.

vii. Repurchase Agreements “Repos”

- Repos are a form of secured lending whereby rather than lend directly to a counterparty, the GIS would buy from them a security e.g. a bond and agree to sell it back at an agreed (higher) price at a future date. The profit on this transaction replaces interest in a normal lending agreement but there is the additional feature that if the borrower becomes insolvent, the GIS may keep the security, which is referred to as collateral.

- For this reason, only securities that meet GIS criteria may be accepted as collateral, however the duration limits of 21.0 and 20.0 do not apply since the expectation is that the collateral will be disposed of at the first opportunity and over-collateralisation provides mitigation for any price movement.

- Furthermore, if such a default occurred, the GIS may need to sell the collateral for cash flow reasons so there may be some price risk between the default and the sale. Therefore, minimum levels of collateral, expressed as a percentage of the market value of collateral relative to the purchase price, are proposed.

- The strategy permits very limited repo exposure (2.5% and 10% in aggregate) to counterparties not meeting unsecured investment criteria. In this case, minimum collateral is set at 102% (in line with minimum standards for repo use by AAA rated money market funds) and the provision is designed to enable transactions with pension funds engaged in liability hedging activities, to mutual advantage.

- There are a number of ways to implement a repo. This is delegated to officers and their advisors or external managers, however per 46.0, legal title to the collateral must be unequivocally obtained and safe custody arrangements be in place.

- Repos will provide a further tool for balancing GIS risk and return: the risk is very much lower than unsecured lending to banks and others, although not as low as T-bills, however repo returns are slightly higher than T-Bills and there is more flexibility with maturity dates.

20.0

i. For the purposes of this limit, WAM is the sum of each expected nominal cashflow and its respective expected incidence in days from the calculation date, divided by the total nominal cashflows; the use of expectations rather than contractual maturities reflects the use of instruments like RMBS which are subject to uncertain repayments. The Syndics place reliance on the systems and investment process of appointed managers to monitor and implement this limit.

28.0

i. Credit Default Swaps (CDS) are effectively insurance contracts against a given counterparty defaulting; their price (typically expressed as an additional interest cost or ‘spread’ in basis points – i.e. 100ths of one percent). Higher prices may therefore reflect greater market perception of risk, although other supply and demand factors can distort this, including the activity of speculators. For this reason, the CIO has discretion to propose postponements to the impact of CDS data on limits.

ii. Although the GIS typically participates in short term investments, it refers to 5 year CDS prices as this market has higher volumes of trading and therefore more accurately reflects market sentiment.

iii. The GIS’s advisor and data provider, Capita, proposes barrier levels dependent on market conditions as indicated by one of the main CDS indices, ITRAXX 5 year senior financials.

iv. When the ITRAXX is below 100 basis points, a counterparty’s limit band will be adjusted down one notch if their CDS price is between 100 and 150 or to ‘no colour’ if above 150

v. When the ITRAXX is above 100, a counterparty’s limit band will be adjusted down one notch if their CDS price between 1 and 50 basis points above the ITRAXX or to ‘no colour’ if more than 50 basis points above.

38.0

i. Book value weighted average here means the sum of the products of principal sums invested (plus any capitalised interest, less any impairments or partial repayments but excluding any accrued interest or unrealised gains or losses) and the respective Credit Factors at the date of calculation, divided by the sum of principal sums invested (plus any capitalised interest, less any impairments or partial repayments but excluding any accrued interest or unrealised gains or losses)

49.0

i. In the absence of the CIO, the senior member of the Group Treasury team present should assume responsibility for reviewing circumstances where discretion might be used, and make appropriate recommendations to the CFO or deputy, who will decide whether to exercise their powers under this strategy.

Approved by Signatories:

MARTIN CLARKE

Syndic, GLA

Date: ....

SUE BUDDEN

Syndic, LFEPA

Date: ....

GERRY MURPHY

Syndic, LLDC

Date: ....

SIOBHAN PETERS

Syndic, MOPAC

Date: ....

DAVID GALLIE

Syndic, LPFA

Date: ....

Appendix 6: Treasury Management Practices: Main Principles

1.0 INTRODUCTION

1.1 The Treasury Management Practices (TMPs): Main Principles below set out the manner in which the Authority will seek to achieve its Treasury policies and objectives. These TMPs: Main Principles follow the wording recommended by the latest edition of the CIPFA Treasury Management Code.

1.2 TMPs: Main Principles are supported by TMPs: Schedules, which provide specific details of the systems and routines employed and the records to be maintained to deliver the TMPs: Main Principles. These Schedules are maintained and updated as necessary, being operational procedures and forming an integral part of the Authority's treasury management manual.

1.3 Approval and monitoring of TMPs is a matter for local decision. As such the TMPs: Principles will be approved by the Authority and monitored by the Executive Director of Resources and annually reviewed by the Authority before the start of the year.

1.4 TMPs: Schedules will be approved, monitored and annually reviewed by the Executive Director of Resources.

1.5 Scrutiny of the approval and monitoring of TMPs will be performed by the Budget and Performance Committee following recommendations by the Executive Director of Resources.

2.0 TMP1 RISK MANAGEMENT

2.1 <u>General statement</u>

2.1.1 The Executive Director of Resources will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Authority's objectives in this respect, all in accordance with the procedures set out in TMP6 'Reporting requirements and management information arrangements'.

2.1.2 In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the TMPs: Schedules.

2.2 <u>Credit and counterparty risk management</u>

2.2.1 The Executive Director of Resources regards a key objective of the Authority's treasury management activities to be the security of the principal sums it invests. Accordingly, he/she will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit investment activities to the instruments, methods and techniques referred to in the TMP4 Approved instruments, methods and techniques and listed in the TMPs: Schedules. The Executive Director of Resources also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which the Authority may borrow, or with whom it may enter into other financing arrangements.

2.3 Liquidity risk management

2.3.1 The Executive Director of Resources will ensure the Authority has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business /service objectives.

2.3.2 The Executive Director of Resources will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

2.4 Interest rate risk management

2.4.1 The Executive Director of Resources will manage Authority exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 ‘Reporting requirements and management information arrangements’.

2.4.2 The Executive Director of Resources will achieve this by the prudent use of Authority approved instruments, methods, and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be subject to the consideration and, if required, approval of any policy or budgetary implications.

2.5 Exchange rate risk management

2.5.1 The Executive Director of Resources will manage its exposure to fluctuations in exchange rates, so as to minimise any detrimental impact on its budgeted income/expenditure levels.

2.6 Refinancing risk management

2.6.1 The Executive Director of Resources will ensure that Authority borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the Authority as can reasonably be achieved in the light of market conditions prevailing at the time.

2.6.2 The Executive Director of Resources will actively manage Authority relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

2.7 Legal and regulatory risk management

2.7.1 The Executive Director of Resources will ensure that all Authority treasury management activities comply with statutory powers and regulatory requirements. He/She will demonstrate such compliance, if required to do so, to all parties with whom the Authority deals in such activities. In framing its credit and counterparty policy under TMP[1] ‘credit and counterparty risk management’, he/she will ensure that there is evidence of counterparties’ powers, authority and compliance in respect of the transactions they may effect with the Authority, particularly with regard to duty of care and fees charged.

2.7.2 The Executive Director of Resources recognises that future legislative or regulatory changes may impact on treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the Authority.

2.8 Fraud, error and corruption, and contingency management

2.8.1 The Executive Director of Resources will ensure that he/she has identified the circumstances which may expose the Authority to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, he/she will maintain effective contingency management arrangements, to these ends.

2.9 Market risk management

2.9.1 The Executive Director of Resources will seek to ensure that the Authority’s stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect the Authority from the effects of such fluctuations.

3.0 TMP2 PERFORMANCE MEASUREMENT

3.1 The Executive Director of Resources is committed to the pursuit of value for money in the Authority’s treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in the Authority’s treasury management policy statement.

3.2 Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the organisation’s stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the TMPs: Schedules.

4.0 TMP3 DECISION-MAKING AND ANALYSIS

4.1 The Executive Director of Resources will maintain full records of Authority treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching these decisions are detailed in the TMPs: Schedules.

5.0 TMP4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

5.1 The Executive Director of Resources will undertake Authority treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in TMP1 ‘Risk management’.

6.0 TMP5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

6.1 The Executive Director of Resources considers it essential, for the purposes of the effective control and monitoring of the Authority’s treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

6.2 The principal on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

6.3 If and when the Authority intends, as a result of lack of resources or other circumstances, to depart from these principles, the Executive Director of Resources will ensure that the reasons are properly reported in accordance with TMP6 ‘Reporting requirements and management information arrangements’, and the implications properly considered and evaluated.

6.4 The Executive Director of Resources will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Executive Director of Resources will also ensure that at all times those engaged in treasury management will follow the policies and procedures. The present arrangements are detailed in the TMPs: Schedules.

6.5 The Executive Director of Resources will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the TMPs: Schedules

6.6 The delegations to the Executive Director of Resources in respect of treasury management are set out in the TMPs: Schedules. The Executive Director of Resources will fulfil all such responsibilities in accordance with the Authority’s policy statement and TMPs and if a CIPFA member, the ‘Standard of Professional Practice on Treasury Management’.

7.0 TMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS.

7.1 The Executive Director of Resources will ensure that regular reports are prepared and considered on the implementation of Authority treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

7.2 As a minimum:

The Authority will receive

- an annual report on the proposed strategy and plan to be pursued in the coming year
- a mid-year review
- an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs.

7.3 The GLA Audit Panel, as the body with responsibility for the scrutiny of treasury management policies and practices, will receive regular monitoring reports on treasury management activities and risks.

7.4 The GLA Audit Panel responsible for scrutiny, such as an audit or scrutiny committee, will have responsibility for the scrutiny of treasury management policies and practices.

7.5 Local authorities should report the treasury management indicators as detailed in their sector-specific guidance notes.

7.6 The present arrangements and the form of these reports are detailed in the TMPs: Schedules.

8.0 TMP7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

8.1 The Executive Director of Resources will prepare, and the Authority will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 'Risk management', TMP2 'Performance measurement', and TMP4 'Approved instruments, methods and techniques'.

8.2 The Executive Director of Resources will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 'Reporting requirements and management information arrangements'.

8.3 The Executive Director of Resources will account for the Authority's treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory requirements in force for the time being.

9.0 TMP8 CASH AND CASH FLOW MANAGEMENT

9.1 Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this Authority will be under the control of the Executive Director of Resources, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Executive Director of Resources will ensure that these are adequate for the purposes of monitoring compliance with TMP1 (1.3) 'Liquidity risk management'. The present arrangements for preparing cash flow projections, and their form are set out in the TMPs: Schedules.

10.0 TMP9 MONEY LAUNDERING

10.1 The Executive Director of Resources is alert to the possibility that the Authority may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the TMPs: Schedules.

11.0 TMP10 TRAINING AND QUALIFICATIONS

11.1 The Executive Director of Resources recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. He/She will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Executive Director of Resources will recommend and implement the necessary arrangements.

11.2 The Executive Director of Resources will ensure that Authority members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

11.3 Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

11.4 The present arrangements are detailed in the TMPs: Schedules.

12.0 TMP11 USE OF EXTERNAL SERVICE PROVIDERS

12.1 The Authority recognises that responsibility for the treasury management decisions remains with the Authority at all times. It recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid overreliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Executive Director of Resources, and details of the current arrangements are set out in the TMPs: Schedules.

13.0 TMP12 CORPORATE GOVERNANCE

13.1 The Authority is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principals and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

13.2 This Authority has adopted and implemented the key principles of the TM Code. This, together with the other arrangements detailed in the TMPs; Schedules, are considered vital to the achievement of proper corporate governance in treasury management, and the Executive Director of Resources will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

Appendix 7: Treasury Management Outturn position for 2015-16 and mid-year position for 2016-17

1. Summary Portfolio Position

Current Treasury Management Position	Actual as at 31 March 2015		Actual as at 31 March 2016		Actual as at 30 September 2016	
	£m	Av. Rate	£m	Av. Rate	£m	Av. Rate
External Borrowing						
Long Term Borrowing	3,563.25	3.50%	3,595.38	3.50%	3,686.38	3.43%
Short Term Borrowing	35.00	0.75%	112.00	0.57%	116.00	0.60%
Total External Borrowing (A)	3,598.25		3,707.38		3,802.38	
Other Long Term Liabilities						
PFI Liability	0.00		0.00		0.00	
Finance Lease Liability	0.00		0.00		0.00	
Total Other Long Term Liabilities (B)	0.00		0.00		0.00	
Total Gross Debt (A+B)	3,598.25		3,707.38		3,802.38	
Capital Financing Requirement*	3,630.12		3,619.18		3,678.50	
Less Other Long Term Liabilities	0.00		0.00		0.00	
Underlying Capital Borrowing Requirement (C)	3,630.12		3,619.18		3,678.50	
Under/(Over) Borrowing (C-A)	31.87		-88.20		-123.88	
Investments (D)	998.95	0.72%	1,752.59	0.72%	1,648.57	0.69%
Net Borrowing/(Investments) (A-D)	2,599.30		1,954.79		2,153.81	

2. Treasury Management Budget

	2015-16 Opening Estimate £m	2015-16 Year End Actual £m	Variance between Opening Estimate and Year end Actual £m	2016-17 Opening Estimate £m	2016-17 Actual as at 30.9.15 £m	2016-17 Revised Estimate £m	Variance between Opening Estimate and Revised Estimate £m
PWLB Interest payable	125.10	125.51	0.41	125.10	63.30	126.46	1.36
Interest receivable	-8.30	-9.97	-1.67	-8.00	-6.05	-8.76	-0.76
Minimum Revenue Provision & Vol Revenue Provision	101.10	101.10	0.00	101.10	19.00	101.10	0.00
Total	217.90	216.64	-1.26	218.20	76.25	218.80	0.60

3. Prudential Code Indicators and Treasury Management Limits

i) Capital Financing Requirement

	2015-16 Original Estimate £m	2015-16 Year End Actual £m	2015-16 Variance between Original Estimate and Year End Actual £m	2016-17 Original Estimate £m	2016-17 Revised Estimate £m	2016-17 Variance between Original Estimate and Revised Estimate £m
Total CFR	3,464.40	3,619.10	154.70	3,764.00	3,678.50	(85.50)

ii) Authorised Limit for External Debt

	2015-16 Final Authorised Limit £m	2015-16 Actual External Debt £m	Headroom £m	2016-17 Original Authorised Limit £m	2016-17 Actual External Debt As At 30.09.15 £m	Headroom £m	2016-17 Revised Authorised Limit £m
Borrowing	4,600.00	3,707.38	892.62	4,800.00	3,802.38	997.62	4,800.00
Other long term liabilities	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total	4,600.00	3,707.38	892.62	4,800.00	3,802.38	997.62	4,800.00

iii) Operational Boundary for External Debt

	2015-16 Final Operational Boundary £m	2015-16 Actual External Debt £m	Headroom £m	2016-17 Original Operational Boundary £m	2016-17 Actual External Debt As At 30.09.15 £m	Headroom £m	2016-17 Revised Operational Boundary £m
Borrowing	4,290.00	3,707.38	582.62	4,300.00	3,802.38	497.62	4,300.00
Other long term liabilities	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total	4,290.00	3,707.38	582.62	4,300.00	3,802.38	497.62	4,300.00

iv) Net Borrowing Upper Limits to Fixed and Variable Interest Rate Exposure

	Opening 2015-16	As at 31.03.16	Opening 2016-17	As at 30.09.16
	%	%	%	%
Fixed rate	100.00	189.66	100.00	167.26
Variable rate	20.00	-89.66	0.00	-67.26

NB: when the limits were set they were set on the basis of Gross debt, whilst the definition of the indicator refers to net debt. All current long term debt is on a fixed rate basis whilst by definition investments will be variable as they are set for less than one year. The use of the net indicator therefore logically will always result in a fixed rate upper limit in excess of 100%.

v) Limits for Maturity Structure of Borrowing

	Upper Limit	Lower Limit	As at 31.03.2016
	%	%	%
Under 12 months	100.00	0.00	4.07
12 months and within 24 months	100.00	0.00	1.83
24 months and within 5 years	100.00	0.00	9.58
5 years and within 10 years	100.00	0.00	25.43
10 years and above	100.00	0.00	59.09

4. Crossrail Monitoring

	Totals as at		
	31/03/2016 £m	30/09/2016 £m	31/03/2017 £m
Total borrowing of project	3,251.25	3,226.25	3,138.00
In year interest paid	118.30	58.20	116.35
In year interest receivable	0.12	0.06	0.13
Net in year interest paid	118.18	58.14	116.22
In year BRS receipts	218.30	106.80	219.00
In year payments to TfL	-	-	-

5. NLE Monitoring

	Totals as at		
	31/03/2016 £m	30/09/2016 £m	31/03/2017 £m
Total borrowing of project	201.10	321.10	321.10
In year interest paid	0.38	-	2.10
In year interest receivable	- 0.71	- 0.40	- 0.68
Net in year interest paid	- 0.33	0.40	1.42
In year payments to TfL	121.00	76.30	160.50

Agenda Item 8

Report for: Corporate Committee 30 November 2017

Item number: **8**

Title: Treasury Management Update Report

Report authorised by: Clive Heaphy, Interim Chief Finance Officer

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. This report updates the Committee on the Council's treasury management activities and performance in the six months to 30 September 2017 in accordance with the CIPFA Treasury Management Code of Practice. It is a requirement of the Code for the report also to be considered by Full Council.

2. Cabinet Member Introduction

2.1. Not applicable.

3. Recommendations

3.1. That members note the Treasury Management activity undertaken during the six months to 30 September 2017 and the performance achieved.

4. Reason for Decision

4.1. None.

5. Other options considered

5.1. None.

6. Background information

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 authority'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 in Haringey, 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 2017/18 on 27 February 2017. The Corporate Committee is responsible for monitoring treasury management activity and this is achieved through the receipt of quarterly reports. This report forms the 2nd quarterly monitoring report for 2017/18.

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

Security - Liquidity - Yield

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.

6.5. The quarterly reports during 2017/18 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 remains low and the Council's significantly less than the cost of new borrowing and therefore the historic strategy of minimising cash balances has benefited the Council. Borrowing for short term periods with local authorities will be taken when required for liquidity purposes, however longer term interest rates with the Public Works and Loans Board continue to be carefully monitored. Officers will undertake new longer term borrowing, consistent with the Council's approved treasury strategy and capital plans, and in line with advice from Arlingclose when rates fall to sufficiently beneficial levels.

Legal

8.2. The contents and recommendation of this report are in accordance the Code 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

Appendix 1 – Prudential and Treasury Indicators

10. Local Government (Access to Information) Act 1985

10.1. Not applicable.

11. External Context: Economic Commentary and Outlook

Economic background

11.1. Commodity prices fluctuated over the first half of 2016/17, with oil falling below $45 a barrel before inching back up to $58 a barrel. UK Consumer Price Inflation (CPI) index rose with the data print for August showing CPI at 2.9%, its highest since June 2013 as the fall in the value of sterling following the June 2016 referendum result continued to feed through into higher import prices. The new inflation measure CPIH, which includes owner occupiers' housing costs, was at 2.7%.

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

11.3. The Bank of England made no change to monetary policy at its meetings in the first half of the financial year. The vote to keep Bank Rate at 0.25% narrowed to 5-3 in June highlighting that some MPC members were more concerned about rising inflation than the risks to growth. Although at September's meeting the Committee voted 7-2 in favour of keeping Bank Rate unchanged, the MPC changed their rhetoric, implying a rise in Bank Rate in "the coming months". The Council's treasury advisor Arlingclose was not convinced the UK's economic outlook justified such a move, but the Bank's interpretation of the data seemed to have shifted. On 2 November 2017 the Bank raised the Bank Rate to 0.50%, the first rise in the Bank Rate since the onset of the global financial crisis in the late 2000s.

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

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

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

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

Financial markets:

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

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

Credit background:

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

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

11.12. S&P also revised Nordea Bank's outlook to stable from negative, whilst affirming their long-term rating at AA-. The agency also upgraded the long-term rating of ING Bank from A to A+.

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

12. Local Context

12.1. At 31/3/2017 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £575.2m. The Council had £347.0m of borrowing and £18.6m 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 will therefore need to take out additional borrowing over the forecast 3 year period.

13. Borrowing Strategy During the Quarter

13.1. At 30/09/2017 the Council held £267.5m of long term loans, (a decrease of £3.1m on 31/3/2017), as part of its strategy for funding previous years' capital programmes. The Council expects to take out additional long term borrowing in 2017/18, as the Council's underlying need to borrow is growing. Interest rates are carefully monitored and advice is taken from the Council's treasury adviser Arlingclose in relation to this.

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.

Borrowing Activity

Borrowing	Balance at 1 Apr 2017 £'000	Borrowing Raised £'000	Maturities £'000	Balance at 30 Sept £'000	Avg Rate %
Short term Borrowing					
- UK Local Authorities	76,400	176,000	202,400	50,000	0.27
Long Term Borrowing					
- PWLB	145,646	0	3,098	142,548	5.51
- LOBO	125,000	0	0	125,000	4.72
TOTAL BORROWING	347,046	176,000	205,498	317,548	4.37

13.4. **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. £25m 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 extremely unlikely to exercise their options.

Debt Rescheduling

13.5. The premium charge for early repayment of PWLB debt remains relatively expensive for the loans in the Council's portfolio and therefore unattractive for debt rescheduling activity.

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 2017/18 the Council's investment balances would range between £10 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 remainder of the Council's investments are held with the DMO (government agency).

Investment Activity

Investments	Balance at 1 Apr 2017 £'000	Investments Made £'000	Maturities £'000	Balance at 30 June £'000	Avg Rate /Yield %
Short term Investments (call accounts, depos					
- Banks & Building Societies	0	0	0	0	0
UK Government:					
- Deposits at Debt Management Office	10,000	180,405	190,405	0	0.10
- UK Local Authorities	0	0	0	0	0.00
Money Market Funds	8,575	179,205	172,955	14,825	0.19
TOTAL INVESTMENTS	18,575	359,610	363,360	14,825	0.17

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 %
31/03/2017	3.49	AA	3.06	AA	46
30/06/2017	4.54	A+	4.54	A+	100
30/09/2017	4.39	AA-	4.39	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 0.25% since August 2016, and remained at this level for the period in question ending 30 September 2017. (The rate increased to 0.50% on 2 November 2017.) 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 were 0.10% during the period to 30 September, however rose to 0.25% following the decision to raise the Bank Rate.

14.7. Investments in Money Market Funds generated an average rate of 0.19%. The Council's forecast investment income for the year is estimated at £36k.

14.8. Although the Bank Rate rose at the beginning of November, this will not have a significant impact on the levels of interest that the Council is able to generate, as rates will still remain at extremely low levels.

15. Compliance with Prudential Indicators

15.1. The Council confirms compliance with its Prudential Indicators for 2017/18, which was set in February 2017 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:

	2017/18 Q2	**2017/18 Full Year**	**2018/19**
Upper limit on fixed interest rate exposure	100%	100%	100%
Actual	78%		
Upper limit on variable interest rate exposure	60%	60%	60%
Actual	22%		

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, including short term borrowings.

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**	**30-Sep-17**

under 12 months	0%	60%	22.1%
12 months & within 2 years	0%	40%	0.0%
2 years & within 5 years	0%	40%	9.4%
5 years & within 10 years	0%	40%	5.9%
10 yrs & within 20 yrs	0%	40%	3.8%
20 yrs & within 30 yrs	0%	40%	3.1%
30 yrs & within 40 yrs	0%	50%	28.9%
40 yrs & within 50 yrs	0%	50%	26.7%
50 yrs & above	0%	40%	0.0%

15.6. 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 2017/18</u>

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

Appendix 1: Prudential Indicators

No.	Prudential Indicator	2017/18 Original Indicator*	2017/18 Forecast Position 30 September
CAPITAL INDICATORS			
1	Capital Expenditure	£'000	£'000
	General Fund	133,941	133,941
	HRA	68,901	68,901
	TOTAL	202,842	202,842
2	Ratio of financing costs to net revenue stream	%	%
	General Fund	2.18	2.18
	HRA	9.87	9.87
3	Capital Financing Requirement	£'000	£'000
	General Fund	373,224	373,224
	HRA	271,096	271,096
	TOTAL	644,320	644,320
4	Incremental impact of capital investment decisions	£	£
	Band D Council Tax	13.75	13.75
	Weekly Housing rents	0.20	0.20
5	Borrowing Limits	£'000	£'000
	Authorised Limit / actual debt	536,063	317,548
	Operational Boundary/actual debt	481,105	317,548

*adjusted for slippage from 2016/17

No.	Prudential Indicator	2017/18 Original Indicator		2017/18 Forecast Position 30 September
6	HRA Debt Cap	£'000		£'000
	Headroom	56,442		56,442
7	Gross debt compared to CFR	£'000		£'000
	Gross debt	347,046		317,548
	CFR	644,320		644,320
8	Upper limit – fixed rate exposure	100%		77.9%
	Upper limit – variable rate	60%		22.1%
9	Maturity structure of borrowing (U: upper, L: lower)	**L**	**U**	**30-Sep-17**
	under 12 months	0%	60%	22.1%
	12 months & within 2 years	0%	40%	0.0%
	2 years & within 5 years	0%	40%	9.4%
	5 years & within 10 years	0%	40%	5.9%
	10 yrs & within 20 yrs	0%	40%	3.8%
	20 yrs & within 30 yrs	0%	40%	3.1%
	30 yrs & within 40 yrs	0%	50%	28.9%
	40 yrs & within 50 yrs	0%	50%	26.7%
	50 yrs & above	0%	40%	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	**30-Sep-17**
	under 12 months	0%	60%	45.8%
	12 months & within 2 years	0%	40%	15.7%
	2 years & within 5 years	0%	40%	9.4%
	5 years & within 10 years	0%	40%	5.9%
	10 yrs & within 20 yrs	0%	40%	3.8%
	20 yrs & within 30 yrs	0%	40%	0.0%
	30 yrs & within 40 yrs	0%	50%	16.3%
	40 yrs & within 50 yrs	0%	50%	3.0%
	50 yrs & above	0%	40%	0.0%

Haringey LONDON

Agenda Item 9

Report for: **Corporate Committee – 30 November 2017**

Item number: **9**

Title: **Internal Audit Progress Report 2017/18 – Quarter 2**

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: **Information**

1. Describe the issue under consideration

1.1 This report details the work undertaken by Internal Audit in the quarter ending 30 September 2017 and focuses on progress on internal audit coverage relative to the approved internal audit plan, including the number of audit reports issued and finalised – work undertaken by the external provider (Mazars).

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 The Corporate Committee is recommended to note the audit coverage and follow up work completed.

4. Reasons for decision

4.1 The Corporate Committee is responsible for monitoring the completion of the annual internal audit plan and the implementation of agreed recommendations as part of its Terms of Reference.

4.2 In order to facilitate this, progress reports are provided on a quarterly basis for review and consideration by the Corporate Committee on the work undertaken by the Internal Audit Service in completing the annual audit plan. Where further action is required or recommended, this is highlighted with appropriate recommendations for the Corporate Committee.

5. Alternative options considered

5.1 Not applicable.

6. Background information

6.1 The information in this report has been complied from information held within Audit & Risk Management and from records held by Mazars.

7. Contribution to strategic outcomes

7.1 The internal audit work makes a significant contribution to ensuring the adequacy and effectiveness of internal control throughout the Council, which covers all key Priority areas.

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 completed by Mazars is part of the framework contract which was awarded to the London Borough of Croydon and 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 budget. The maintenance of a strong internal audit function and a proactive and reaction fraud investigation team is a key element of the Council's system of Governance.

8.2 Legal
The Council's Assistant Director of Corporate Governance has been consulted in the preparation of this report, and had no comments.

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 – Mazars Progress report – Internal audit

10. Local Government (Access to Information) Act 1985
Not applicable.

11. Performance Management Information

11.1 Although there are no national or Best Value Performance Indicators, local performance targets have been agreed for Audit and Risk Management. Table 1 below shows the targets for each key area monitored and gives a breakdown between the quarterly and cumulative performance.

Table 1 – Performance Indicators

Ref.	Performance Indicator	2nd Quarter	Year to date	Target
1	Internal Audit work (Mazars) – Days Completed vs. Planned programme	75%	58%	95%
2	Priority 1 recommendations implemented at follow up	N/A	N/A	95%

12. Internal Audit work – Mazars

12.1 The activity of Mazars for the second quarter of 2017/18 is detailed at Appendix A. Mazars planned to deliver 195 days of the annual audit plan (780 days) during the quarter and delivered 147 days audit work during the quarter. Ongoing monthly contract monitoring reviews ensure that performance levels are kept under review and the annual target is still expected to be achieved. The follow up programme of work will commence during quarter 3 and will be reported to a future committee meeting.

12.2 Members of the Corporate Committee receive detailed summaries of all projects for which a final report has been issued on a monthly basis to allow for any concerns which members may have to be considered in a timely manner. Appendix A provides a list of all final reports which have been issued during the quarter. Detailed summaries of any reports with a limited or nil assurance are included in Appendix A for information.

12.3 **Significant issues arising in Quarter 2**

School audits. During the quarter, five school audits were completed and final reports issued. Two schools received 'limited' assurance ratings, and one school received a 'nil' assurance rating (the remaining schools received 'substantial' ratings). This is a situation which continues to highlight the poor performance within schools subject to audit; although additional support is being rolled out to schools, this is an area which continues to be high risk for the council.

Information Governance. The audit issued a 'limited' assurance rating; further work is being undertaken in this area in 2017/18 but with the implementation of the new statutory General Data Protection Regulations in May 2018, this is an area of high risk to the Council moving forward. Further work is being undertaken by services to address the gaps in compliance; internal audit is also due to complete other assurance work in this area during 2017/18.

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Internal Audit
Quarter 2 Internal Audit Report 2017/18
London Borough of Haringey

Mazars Public Sector Internal Audit Ltd.

October 2017

Contents

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Executive Summary

Introduction

This is our second report to the Corporate Committee for the 2017/18 financial year including details of all reports which are now at final stage. The report provides information on those areas which have achieved full or substantial assurance and gives an indication of the direction of travel for key systems work which will provide Members with information on how risks are being managed over time. The format of this report is also designed to highlight the key risks facing individual departments and the Council which have been identified during the course of our internal audits. A more detailed summary of the limited assurance audit findings is included for information. The report draws together the summary information which is provided on a monthly basis to Members of the Corporate Committee. Members of the Committee will also be provided with full copies of our audit reports upon request.

All recommendations are agreed with Council officers, and any disputes are discussed prior to the final report being issued. All recommendations to address any control weaknesses highlighted within this report have been agreed. Officers' actions to address the recommendations, including the responsible officer and the deadline for completion, are fully detailed in the individual final audit reports.

The attached tables reflect the status of the systems at the time of the audit, and recommendations may already have been implemented by Council officers by the time the final report is issued and reported to the Corporate Committee.

As a reminder, our recommendations are prioritised according to the following categories:

Priority 1 - major issues for the attention of senior management
Priority 2 - other recommendations for local management action
Priority 3 - minor matters and/or best practice recommendations

Key Highlights/Summary of Quarter 1 and 2 2017/18:

2016/17 Internal audits finalised in the quarter

- Pension Fund Investments
- Information Governance

2016/17 Draft Internal Audit Reports issued this quarter

- Welfare Reform

2017/18 Internal Audit Reports finalised in the quarter:

- IR35

- A team
- High Road West
- Hornsey School for Girls
- Bruce Grove Primary School
- Chestnuts Primary School
- Mulberry Primary School
- Rokesly Infants School

2017/18 Draft Internal Audit Reports issued this quarter

- Direct Payments
- Capital Delivery
- Crowland Primary School
- Lancasterian Primary School

Audit Progress and Detailed Summaries

The following table sets out the audits finalised in Quarter 2 of 2017/18 financial year and the status of the systems at the time of the audit. It must be noted that the recommendations may already have been implemented by Council officers by the time the final report is issued and reported to the Corporate Committee. Detailed summaries of all audits which do not receive ‘Full’ or ‘Substantial’ assurance ratings are also provided for Members’ information.

Audit Title	Date of Audit	Date of Final Report	Assurance Level	Direction of Travel	Number of Recommendations (Priority)		
					1	2	3
2016/17							
Pension Fund Investments	June 2017	Aug 2017	Full	⟺	0	0	0
Information Governance	May 2017	Aug 2017	Limited	N/A	2	8	0
2017/18							
IR35	June 2017	Sept 2017	Substantial	N/A	0	2	0
A team	May 2017	Sept 2017	Limited	N/A	7	11	2
High Road West	June 2017	Sept 2017	Substantial	N/A	0	1	0

As part of the 2017/18 Internal Audit Plan we have visited the following schools, completed a probity audit and during Quarter 2 issued a final report.

School	Date of Audit	Date of Final Report	Assurance Level	Number of Recommendations (Priority)		
				1	2	3
2017/18						
Hornsey School for Girls	June 17	Sept 17	Substantial	1	3	0
Bruce Grove Primary School	June 17	July 17	Limited	3	9	5
Chestnuts Primary School	June 17	July 17	No	10	10	1
Mulberry Primary School	July 17	Sept 17	Substantial	0	4	0
Rokesly Infants School	July 17	Sept 17	Limited	0	5	5

Audit area	Scope	Status/key findings	Assurance
Ad-Hoc Audits			
Information Governance	Audit work was undertaken to cover the following areas: • Strategy • Compliance • Information Storage • Information Sharing • Communication & Training • Risk Management • Performance Monitoring & Reporting	While there is a basically sound system of internal control, there are weaknesses, which put some of the client's objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the client's objectives at risk. The key findings are as follows: • The Council has policies covering the Information Governance, Freedom of Information and Data Protection Policy, which are published on the intranet although all these policies were last updated in December 2011. We were informed that there is at present no plan for the policies to be reviewed and updated. • There is no Information Governance strategy. • Information is defined in the Information Governance Policy as all information irrespective of where or how it is held, and provides examples such as databases, electronic files, paper files, microform, emails, voicemails, transient documents, works in progress, visual images (such as photographs, scanned images & CCTV), web 2.0 documents (such as blogs, wikis and Facebook), discussion threads (such as Twitter) and other social media sites. The policy also notes that it will cover formats that may be developed and used in the future. • Adherence to the Transparency Code is provided through the Council's Publication Scheme, which is published on the website and identifies 10 classes of information with links to the actual data. We were informed that responsibility for keeping the actual data up to date lies within individual services, and ensuring that all required data is published lies with the Feedback & Information Governance team.	**Limited**

Audit area	Scope	Status/key findings	Assurance

		• IT Services are certified to ISO 27001/2013 and which is subject to external accreditation once every three years. The most recent accreditation was completed by the Lloyds Registrar Quality Assurance (LRQA) with a certificate issued on 15 December 2016.
		• Responsibilities for Information Governance have been assigned as follows:
		    o The Senior Information Risk Owner (SIRO) is the Head of Audit & Risk Management; and
		    o The Data Protection Officer is the Feedback & Information Governance Team Manager.
		• There is a dedicated Feedback & Information Governance Team which consists of the Team Manager and an Information Governance Officer.
		• Responsibility for Information Governance arrangements resides with the Information Security & Business Manager for IT issues and the Feedback & Information Governance Team Manager for non-it issues, with oversight by the Head of Audit & Risk Management. This is not documented in the Information Governance Policy.
		• There is an IT Security Forum, consisting of the SIRO and IT Officers which meets once a quarter and reviews information security issues.
		• There is no dedicated Corporate Forum for Information Governance issues, other than the Statutory Officers Group (SOG).
		• There are no officers identified in individual Directorates or services with responsibility for Information Governance.
		• Individual services are required to maintain an Information Asset Register (IAR) in which they record all information assets for	

Audit area	Scope	Status/key findings	Assurance

		which they are responsible. The IAR shall also identify for each information asset, whether it is shared with any external agency.
		• There are no Information Sharing principles set out, other than the procedures as identified in the model Information Sharing Protocol developed in September 2009.
		• In addition, an IT Asset Inventory is maintained by IT Services. This was obtained and examined and confirmed the following:
		  ○ 98 information assets were recorded;
		  ○ The definition of each asset included whether it held personal data or commercial in confidence data, information owner, the purpose for which it was held, whether it was a legal or business need, its classification (as Official or Official Sensitive) and data retention guidelines;
		  ○ 93 of the assets were last reviewed in either June, July or November 2016. The other five was last reviewed in June 2006; and
		  ○ Each asset was identified as whether it was shared internally in the Council, and externally. Where it was identified as being shared externally, the inventory recorded the direction the information is shared, approximate number of records shared, sharing method, security controls in place to protect data and an assessment of the impact/consequence of a breach of confidentiality.
		• We selected six of the 18 services headed by an Assistant Director, and requested that the IAR be provided. We confirmed the following:
		  ○ IAR are held for Strategy & Communications, Public Health, and individual services within Adult Services and	

Audit area	Scope	Status/key findings	Assurance
		Children Services (Safeguarding); ◦ There is no IAR for Housing & Growth or for Customer Services. We were informed that any data recorded by Customer Services is held on systems ‘owned’ by other services; ◦ While the IAR allowed for the classification of information assets, the classification used was Restrict, Protect, Classified and Unclassified. It was further noted that some assets were not so classified, and others only marked as ‘password protected’. This was the case for all IAR apart from Strategy & Communications; ◦ The IAR did specify retention guidance for information assets recorded, apart from some of the assets listed on the Public Health IAR, and for some of the Adult Services IAR; and • The IAR identified whether information assets re shared, apart from some assets on the Adult Services IAR. The Council does not have a Data Retention Schedule, although there is a link from the intranet Data Protection pages to the London Government Association (LGA) website on which is provided guidance on data retention requirements. • As part of the end of year annual assurance process, Assistant Directors are required to confirm that they have produced and maintained an IAR. • E-learning courses have been developed and are available on the intranet covering Information Handling, Data Protection and IT Security. In the 12 months to June 2017 there have been 390 staff who completed the Data Protection and 56 staff who completed the IT Security courses.	

Audit area	Scope	Status/key findings	Assurance
		• A Corporate Risk Register is maintained for the Council, though there were no specific risks related to Information Governance included. • Information Technology Services maintain a Risk Treatment Plan covering Information Security which is monitored fortnightly. As a result of our audit work we have raised two Priority 1 and eight Priority 2 recommendations which should assist in improving the control environment. Our priority 1 recommendations are as follows An Information Governance Strategy should be developed by which the requirements of the GDPR are achieved. This will include the review and update of all policies and the Information Sharing Protocol, and communication of such requirements to all staff A project is currently being scoped that addresses the impacts of the GDPR requirements. This will be addressed as part of this project. Deadline May 2018 Assistant Directors should be required to identify an officer within their service who will take responsibility for liaising with the FIG Team and implementing all information governance requirements. Elements of this recommendation will be resolved through the GDPR project. In addition, a review of staffing and structure for information-related roles is currently underway. One outcome of this review will be to identify information lead (including governance) responsibilities in each Priority Outcome area of operation, and thereby in service teams. Deadline May 2018. Our priority 2 recommendations are as follows: An officer should be made responsible for the updating of The Information Governance, Freedom of Information and Data Protection Policy. The Information Governance Policy should be reviewed to	

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Audit area	Scope	Status/key findings	Assurance
		ensure that it reflects current staffing structures and responsibilities. Such policies should be reviewed on an annual basis. The FOI Policy was reviewed in September 2015. A further review will form part of the GDPR Project which will also set out guidelines for further (annual) reviews. All roles will be identified through this project. Deadline May 2018 An Information Governance Forum should be established for the Council as a whole, including representatives from all Directorates through which all Information Governance issues can be addressed and co-ordinated across the Council. This will be resolved as part of the GDPR Project which will also set out guidelines for meeting attendees and frequency. Deadline May 2018. The IAR submitted annually by services should be reviewed to confirm the classification is consistent with the latest regulations. Where it is found that it is not, further guidance should be issued to the relevant service. Current IARs will be reviewed and, where necessary, reclassified, in response to this audit. Deadline December 2017 IAR should be reviewed and where they do not specify whether the information asset is shared, the service should be contacted to clarify. Current IARs will be reviewed and, where necessary, reclassified, in response to this audit. Deadline December 2017 The IAR should be reviewed and where an IAR identifies an information asset as shared, the service should be requested to confirm that a protocol is in place and is up to date This will be resolved as part of the GDPR Project, which will also set general guidelines for IARs along with review schedules. Deadline May 2018.	

Audit area	Scope	Status/key findings	Assurance
		The model Information Sharing Protocol should be reviewed to bring into line with current legislative requirements This will be resolved as part of the GDPR Project Deadline May 2018. Periodic reports of staff who have not completed e-learning courses should be produced and forwarded to the FIG Team. Reports on completion of such courses should be made to the SOG. HR will investigate if it is possible to give the FIG team reporting access to the learning system (Fuse) so that they can extract the required reports as and when required (i.e. self service). If this is not possible we can agree reporting schedule. As part of a new 'middle manager' programme, the council will be developing 'Haringey Essential' courses/learning, which all staff will need to undertake; we will as part of that larger exercise also agree the monitoring and escalation process for non-compliance, which may or may not include regular reporting to SOG. Deadline December 2017	
Outstanding for All (Adult services)			
A team	Audit work was undertaken to cover the following areas: • Governance • Staffing • Complaint Handling • Financial Management • Ordering and Invoicing • Assets • Business Continuity • Management Information • User experience	While there is a basically sound system of internal control, there are weaknesses, which put some of the client's objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the client's objectives at risk. The key findings are as follows: • It was established that there is currently no agreed Constitution in place for the A Team. • We obtained a draft Business Plan which we were informed has since been abandoned. Discussions with the Clarendon Recovery College Manager confirmed that a new business plan is being compiled in partnership with Bridge Renewal Trust (Haringey Council's Strategic Partner for the Voluntary and Community Sector), but this is in the very early stages of development and a draft was not available for examination. • It was established that operational procedures have not been	**Limited**

Audit area	Scope	Status/key findings	Assurance
		compiled. No documents were obtainable during the course of the audit that highlighted the roles and responsibilities of specific members of staff. • It was established that the A Team have adopted Haringey Council's official Complaints Policy. Any official complaints are received by Haringey Council, passed on to the Clarendon Recovery College Manager, who will then interview the Employment & Training Worker regarding the matter, and take corrective action where necessary. There is no record of any complaints received with regard to the A Team according to the Clarendon Recovery College Manager. • It was established that the current recruitment process used to take on volunteers does not include a preceding Disclosure & Barring Service check. • There is no documented Scheme of Delegation in place. The Clarendon Recovery College Manager is the only Budget Holder. All money earned by the A Team service is managed by the Employment & Training Worker, however, this is not considered Haringey Council income and Haringey Council receives no benefit from this. • It was established that Purchase Orders are not used for any goods or services ordered by the A Team. • Examination of the Accounts and Invoices file provided by the Clarendon Recovery College Manager revealed no evidence of any Goods Received Notes being obtained and retained for items that appear in the asset register. • From a random sample of 10 invoices, it was confirmed that in two cases (accounting reference numbers 99 and 95A-D), the amount recorded as paid in the cashbook did not match the invoiced amount. It is, however, our understanding that the money used here has been generated within the A Team and that the Council bears no financial risk. • We were unable to confirm that an adequate segregation of duties is taking place with regard to ordering and invoicing as there is no Scheme of Delegation and no clear management trail to show who	

Audit area	Scope	Status/key findings	Assurance
		has been responsible for what. • We obtained an Asset Register. According to the document the most recent stock take exercise was completed on 28/10/2014, and there was no tangible evidence obtainable to suggest that spot checks have been completed at all. It was confirmed that the asset register does include valuable and portable assets. Some detail is given regarding make and model number of assets, however there is no indication of unique ID numbers, serial numbers, initial/replacement cost or location/storage of assets in the Asset Register. • It was established that the A Team are in the process of security marking all of their assets. The Clarendon Recovery College Manager explained this will be done by late July 2017. We have not been able to confirm that this was done due to a key officer being on leave when we completed fieldwork. • It was established that management reports have not been regularly received by the Clarendon Recovery College Manager for the past 18 months. Updates are given on an informal basis, however, in the absence of any tangible evidence we could not confirm this. No Key Performance Indicators have been established to measure against the service performance and delivery. • We could not obtain any evidence to suggest customer feedback is reported to senior management for their consideration. As a result of our audit work we have raised seven Priority 1, 11 Priority 2 and two priority 3 recommendations which should assist in improving the control environment. Our priority 1 recommendations are as follows Senior Management within the A Team should establish an agreed Constitution that sets out the fundamental principles according to which the A Team is to be governed. Agreed - Deadline December 2017 Operational procedures should be compiled, agreed by management,	

Audit area	Scope	Status/key findings	Assurance
		and reviewed on a periodic basis. Agreed – Deadline November 2017 Roles and responsibilities should be defined in either individual job descriptions or the operational procedure notes. Agreed – Deadline November 2017 The A Team should develop a Scheme of Delegation document which includes delegated financial responsibilities and financial limits. There is Scheme of Delegation in the council however a bespoke one for The A–Team is necessary. Agreed – Deadline November 2017 All invoices should be certified by an independent authorised signatory, according to the Scheme of Delegation. Agreed – Deadline October 2017 Management reports should be submitted to the Clarendon Recovery College Manager by the Employment & Training Worker on a monthly basis. Manager needs to formulate monthly report template that will highlight how many jobs have been undertaken and how much has been earned how many have worked and how much has been spent. Agreed – Deadline December 2017 Customer feedback should be summarised and reported back to management as part of the monthly management reporting process Agreed – Deadline December 2017 Our priority 2 recommendations are follows A Business Plan which conveys the services management structure and procedures needed to meet its targets, should be developed by the A Team and agreed with the Council. Agreed – Deadline March 2018 A Recruitment Policy should be developed that states the entry requirements for new starters and ensures that all safeguarding checks including DBS are completed prior to any contract start dates. Agreed – Deadline November 2017 Staff rotas should be developed and used on a regular basis. Agreed – Deadline October 2017	

Audit area	Scope	Status/key findings	Assurance
		Timesheets should be completed by staff on a regular weekly basis and approved by the Employment & Training Worker to confirm their accuracy. Agreed – Deadline October 2017 All new starters should complete induction training before providing any service to customers. A record should be maintained of all new starters who have completed induction training Agreed – Deadline December 2017 All staff fulfilling specific duties that require training should complete their training prior to delivering the service. Agreed – Deadline December 2017 Official Purchase Order forms should be raised for all purchases, where appropriate, and retained on file. Agreed – Deadline November 2017 Goods Received Notes should be obtained and retained upon receipt of all goods and services ordered by the A Team. Checks should be carried out on receipt to ensure that goods received match those ordered. Agreed – Deadline November 2017 The A Team should maintain a record of its inventory and this should be held collectively by a delegated member of staff. The records should provide information on: the type of asset, make, model, serial number, date of purchase, approximate value, location, and date of disposal (where appropriate). Agreed – Deadline November 2017 Annual inventory checks should be undertaken and signed off by the person carrying out the check. Once completed, this should be independently checked and signed off by the Clarendon Recovery College Manager. Agreed – Deadline November 2017 Customer feedback should be recorded electronically on receipt Agreed – Deadline December 2017	

Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by us should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Our procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our work and to ensure the authenticity of such material. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Mazars Public Sector Internal Audit Limited

London

October 2017

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Report for: **Corporate Committee – 30 November 2017**

Item number: **10**

Title: **Counter Fraud Update Report 2017/18 – Quarter 2**

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: **Information**

1. Describe the issue under consideration

1.1 This report details the work undertaken by the Counter Fraud Team in the quarter ending 30 September 2017 and focuses on details of pro-active and reactive investigative work undertaken relating to fraud and/or irregularities – work undertaken by the in-house Fraud Team.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 The Corporate Committee is recommended to note the counter-fraud work completed in the quarter to 30 September 2017.

4. Reasons for decision

4.1 The Corporate Committee is responsible for monitoring the effectiveness of Council policies on Anti-Fraud and Corruption. In order to facilitate this, progress reports are provided on a quarterly basis for review and consideration by the Corporate Committee on the responsive and pro-active fraud investigation work.

5. Alternative options considered

5.1 Not applicable.

6. Background information

6.1 The information in this report has been compiled from information held within Audit & Risk Management.

7. Contribution to strategic outcomes

7.1 The counter-fraud team makes a significant contribution through its pro-active work in ensuring the adequacy and effectiveness of internal control throughout the Council, which covers all key Priority areas.

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 completed by the Fraud Team is funded from within the Audit and Risk Management revenue budget. The maintenance of a strong proactive and reaction fraud investigation team is a key element of the Council's system of Governance.

8.2 Legal

The Council's Assistant Director of Corporate Governance has been consulted in the preparation of this report, and had no comments.

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.

The in-house counter-fraud team is required to demonstrate a strong commitment to equality and fairness in their actions and work practices, and adherence to the Equality Act 2010 and this is built into the team's operational procedures. Ensuring that the Council has effective counter-fraud arrangements in place will assist the Council to use its available resources more effectively.

9. Use of Appendices

Appendix A – Employee investigation outcomes

10. Local Government (Access to Information) Act 1985

Not applicable.

11. Performance Management Information

11.1 Although there are no national or Best Value Performance Indicators, local performance targets have been agreed for Audit and Risk Management. Table 1 below shows the targets for each key counter-fraud area monitored and gives a breakdown between the quarterly and cumulative performance.

Table 1 Performance measures – counter fraud activity

Ref.	Performance Indicator	2nd Quarter	Year to date	Target
1	Tenancy fraud – properties recovered	13	24	50
2	Right to Buy – fraudulent applications prevented	24	34	80

12. In-house Counter-Fraud Team: Fraud investigation/Pro-active work

12.1 Internal employee investigations

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In accordance with the Council's Constitution, the in-house Fraud Team investigates all allegations of financial irregularity against employees.

Quarter 2 investigations. Within the second quarter, four new cases relating to permanent and temporary employees were referred to the Fraud Team. Five cases were completed during the quarter:

- no evidence was found to substantiate the allegations in three cases; briefings were provided to service management which recommended no further action be taken;
- two cases found evidence to support the allegations made and the employees were suspended pending the conclusion of the investigations; reports were issued to service management and disciplinary hearings were held in both cases. One employee was dismissed; one employee was issued with a final written warning and returned to work in line with the disciplinary Code of Conduct; and
- three cases remained in progress at the end of quarter two.

The Fraud Team work closely with officers from HR and the service area involved to ensure that the investigation is completed as quickly as possible.

Whistleblowing referrals. The Head of Audit and Risk Management maintains the central record of referrals made using the Council's Whistleblowing Policy. Three referrals were made during Quarter 2; no financial or fraud issues were reported and the referrals were passed to service management to investigate. Regular reminders are provided for staff on how to raise concerns and use the Whistleblowing Policy; the latest reminder was issued in the July 2017 'In Haringey' staff newsletter. A copy of the policy is also held on the Council's intranet and website.

12.2 Tenancy Fraud – council properties

In 2017/18, the numbers of referrals received, investigations completed and properties recovered to date by the Fraud Team are summarised below.

<u>2017/18 – Referrals received</u>		
Brought forward from 2016/17		93
Referrals received in 2017/18		112
Total referrals received for investigation		**205**
<u>2017/18 Outcomes</u>		
Properties Recovered	**24**	
No Fraud identified	58	
Total cases concluded		82
Ongoing Investigations		**123***

*See Note 1 below

Note 1: Of the 123 ongoing investigations; **40** of these cases (33%) are where tenancy fraud has been identified and court proceedings were in progress as at 30 September 2017. The property will be included in the 'recovered' data when the keys are returned and the property vacated.

The Fraud Team liaise with Legal Services on individual cases to ensure these are progressed as quickly as possible within the statutory timesclaes. For the ongoing investigations where tenancy recovery is in progress, the status of the tenancy has been investigated and the case is either: awaiting a Court Hearing; the Particulars of Claim are with Legal Services; an NTQ is awaiting expiry; a succession application has been refused and the tenant is awaiting an offer of smaller accommodation; or the rent account is showing an 'Unauthorised Account' on the Housing database.

The Fraud Team works with Homes for Haringey (HfH) to target and investigate housing and tenancy fraud, which forms part of HfH's responsibilities in the Management Agreement. HfH have confirmed that they will continue to fund the seconded officer in the Fraud Team on a long term basis to assist with the tenancy fraud work.

The Fraud Team will continue to work with HfH to identify the most effective use of fraud prevention and detection resources across both organisations to enable a joined up approach to be taken, especially where cases of multiple fraud are identified e.g. tenancy fraud, and right to buy fraud.

12.3 Pro-active counter-fraud projects

During 2017/18, the Fraud Team have continued with a number of pro-active counter-fraud projects in areas which have been identified as a high fraud risk. Progress reports on this work will be reported to the Corporate Committee during the year; the findings and outcomes are all shared with service managers as the projects are delivered.

12.3.1 Gas safety – execution of warrant visits

The Fraud Team accompany warrant officers on all executions of 'warrant of entry' visits where it is suspected that the named tenant is not in occupation.

In 2017/18, the Fraud Team have assisted with 91 Gas Safety warrants of execution (51 in quarter 2) and nine properties were re-possessed as a result of the Fraud Team's investigations; these figures are included in the 'properties recovered' figures above. A further 11 properties are under continued investigation and the outcomes will be reported as properties are recovered.

12.3.2 Tenancy Block Visits

Feedback from HfH officers highlighted potential fraud risks in key sites (tenancy blocks) across the borough. It was agreed that the Fraud Team would undertake a pro-active tenancy fraud project focused on individual tenancy blocks to identify any properties that may be sub-let. The Fraud Team obtained a report on key housing stock sites which used data matching to identify potential sub-let properties. The Fraud Team identified Stellar House, Northolt House and Kenley as blocks which required further investigation.

All visits to the three blocks have been completed and a total of 18 NTQ's have been issued covering all three blocks. One property has been recovered and three cases are with Legal Services for possession proceedings as at 30 September.

12.3.3 No Recourse to Public Funds (NRPF)

The Fraud Team attend the initial assessment interview with the applicant to review all information provided to support their application for NRPF funding. This is to prevent any NRPF claimant who is not eligible from obtaining funds fraudulently.

As at 30 September, forty-five referrals have been received during 2017/18 and the Fraud Team have provided information and recommendations back to the NRPF Team. Three referrals have resulted in a potentially fraudulent application being stopped; the Fraud Team are chasing up the outcomes from other recommended action and will report this to a subsequent meeting. There were no accompanied interviews.

The average cost of NRPF support per family based on accommodation and subsistence for a two child household is estimated to cost the Council approximately £20,000 a year. The Fraud Team will continue to work with the NRPF Team to develop processes to identify and prevent fraud.

12.4 Right-to-buy (RTB) applications

The team currently has approximately 350 ongoing applications under investigation. The team reviews every RTB application to ensure that any property where potential tenancy, benefit or succession fraud is indicated can be investigated further. In the last two quarters, the numbers of tenants applying to purchase their properties under the Right to Buy legislation has reduced as valuations continue to rise.

In 2017/18 to date, 34 applications (24 in quarter 2) have been withdrawn or refused either following the applicants' interview with the Fraud Team, further investigations and/or failing to complete money laundering processes.

12.5 Financial Values 2017/18

Tenancy Fraud – council stock and temporary accommodation: The Audit Commission valued the recovery of a tenancy, which has previously been fraudulently occupied, at an annual value of £18,000, relating to average Temporary Accommodation (TA) costs. No new national indicators have been produced; therefore although this value is considered low compared to potential TA costs if the property has been identified as sub-let for several years, Audit and Risk Management continue to use this figure of £18k per property for reporting purposes.

In 2017/18 to date, **24** council stock properties have been recovered through the actions and investigations of the Fraud Team; therefore **a total value of £432k** can be attributed to the recovery, or cessation, of fraudulent council and temporary accommodation tenancies**.**

Right to Buy Fraud: Overall, the 34 RTB applications withdrawn or refused represent **over £3.54m** in potential RTB discounts; and means the properties are retained for social housing use.

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IN HOUSE AUDIT – IRREGULARITIES INVESTIGATED **01/04/17- 30/09/17** (Q2) includes c/f from 2016/17

Service Area	Irregularity Type	No. of cases investigated	No. of cases proven at 30/09/2017	No. of Officers subject to Disciplinary Investigation	Disciplinary Outcome	Value (£) (if known)
Commercial & Operations	Misuse of blue badge	1	1	1	Dismissed	**£2,500***
Deputy Chief Executive	Tenancy Fraud	1	0	0	N/A	N/A
Deputy Chief Executive	Bringing the Council into disrepute	1	0	0	N/A	N/A
Commercial & Operations	Bribery	1	0	0	N/A	N/A
Commercial & Operations	Misuse of resources / abuse of position	1	1	1	Final Written Warning	N/A
TOTAL		**5**	**2**	**2**	**2**	

*Minimum London Councils estimated cost, based on the Congestion Charge exemption claimed – avoiding paying resident permit charges, and hourly on-street parking charges increases estimated costs further to between £5-10k per annum.

Agenda Item 11

Report for: **Corporate Committee – 30 November 2017**

Item number: **11**

Title: **Internal Audit Charter 2017**

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 requirement to implement an Internal Audit Charter was introduced within the mandatory 2013 UK Public Sector Internal Audit Standards (PSIAS). The PSIAS have been reviewed and updated in 2017, but the requirement for a Charter remains in place.

1.2 The PSIAS also require an annual self-assessment to be undertaken against the individual standards; a copy of the self-assessment undertaken in 2017 is provided for information.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 The Corporate Committee reviews and approves the Internal Audit Charter 2017.

3.2 The Corporate Committee notes the self-assessment undertaken against the PSIAS; and the requirement for an external independent peer review in 2018/19.

4. Reasons for decision

4.1 The Internal Audit Charter sets out the purpose, authority and responsibility of the Council's Internal Audit function. The Corporate Committee is responsible for reviewing and approving the Internal Audit Charter as part of its Terms of Reference.

4.2 The Audit Charter forms part of the Council's overall internal audit strategy and the last revision was approved by the Corporate Committee at its meeting on 22 June 2015. The Audit Charter has been updated following the revisions to the PSIAS which came into effect from 1 April 2017.

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5. Alternative options considered

5.1 Not applicable. The requirement for an audit charter is mandatory and its content specified by the PSIAS.

6. Background information

6.1 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.

6.2 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 grant certification work.

6.3 One of the requirements of the PSIAS is for the Council to have an internal audit 'charter' which must formally define the purpose, authority and responsibility of the internal audit activity. The charter will also cover arrangements for avoiding conflicts of interest if internal audit carries out any 'non-audit' activities. In Haringey, this applies as the Head of Audit and Risk Management is responsible for the counter-Fraud, Insurance and Risk Management activities across the Council. These activities are subject to regular independent review by both external audit and Mazars to ensure that appropriate arrangements are in place.

6.4 The Audit Charter has been updated to incorporate the revisions made to the PSIAS in 2017: to incorporate the mandatory elements of the International Professional Practices Framework (IPPF) and include an overarching 'Mission' for Internal Audit services and the 'core principles' which underpin the delivery of the Mission(see Section 3 of the Charter).

7. Contribution to strategic outcomes

7.1 The internal audit work makes a significant contribution to ensuring the adequacy and effectiveness of internal control throughout the Council, which covers all key Priority areas.

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 completed by Mazars is part of the framework contract which was awarded to the London Borough of Croydon and 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 budget. The maintenance of a strong internal audit function and a proactive and reaction fraud investigation team is a key element of the Council's system of Governance.

8.2 Legal

The Council's Assistant Director of Corporate Governance has been consulted in the preparation of this report, and had no comments.

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 – Internal Audit Charter 2017
Appendix B – 2017 self-assessment against PSIAS requirements

10. Local Government (Access to Information) Act 1985

Not applicable.

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HARINGEY COUNCIL

AUDIT CHARTER 2017

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Policy History					
Version	**Summary of Change**	**Contact**	**Implementation Date**	**Review Date**	**EqIA Date**
1.2	Inclusion of IPPF mission and core principles	Head of Audit & Risk Management	December 2017	January 2019	March 2015

Links and Dependencies
Employee Code of Conduct Disciplinary Procedures Council Constitution Whistleblowing Policy Anti-money Laundering Policy Anti-bribery Policy

Related Forms
Declaration of Interests Form Declaration of Receipt of Gift or Hospitality

1. Public Sector Internal Audit Standards

1.1 The UK Public Sector Internal Audit Standards (PSIAS), which came into effect from 1 April 2013, and were revised in April 2017, provide a consolidated approach across the whole of the public sector providing continuity, sound corporate governance and transparency.

1.2 The PSIAS are mandatory and the Head of Audit and Risk Management will report on compliance with the Standards as part of the Annual Internal Audit Report; an independent peer review will be undertaken at least every five years, as required by PSIAS, supplemented by an annual self-assessment to ensure ongoing compliance.

1.3 The PSIAS require Haringey Council to implement and retain an 'Internal Audit Charter'. The purpose of the Internal Audit Charter is to formally define the internal audit activity's purpose, authority and responsibility. This Charter will be reviewed on a regular basis and presented to the Corporate Committee for review and approval.

2. Definition of Internal Audit

2.1 The PSIAS mandatory definition of internal auditing has been adopted by Haringey Council as follows:
'Internal auditing is an independent, objective assurance and consulting (advisory) activity designed to add value and improve an organisation's operations. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.'

3. **Mission and Core Principles**

3.1 The mandatory elements of the International Professional Practices Framework (IPPF) include an overarching 'Mission' for Internal Audit services *'…to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight'*.

3.2 The 'Core Principles' that underpin delivery of the IPPF mission require internal audit functions to:

- Demonstrate integrity;
- Be objective and free from undue influence (independent);
- Align with the strategies, objectives and risks of the organisation;
- Be appropriately positioned and adequately resourced;
- Demonstrate quality and continuous improvement;
- Communicate effectively;
- Provide risk-based assurance;
- Be insightful, proactive, and future-focused; and
- Promote organisational improvement.

4. Authority of Internal Audit

4.1 Internal Audit has unrestricted access to all Council records and information, both manual and computerised, cash, stores and other Council property or assets it considers necessary to fulfil its responsibilities. All the Council's activities, funded from whatever source, fall within the remit of the internal audit service. Audit may enter Council property and has unrestricted access to all locations and officers where necessary, on demand, and without prior notice. This right of access is included in the Council's Constitution (Part Four, Section I, paragraph 5.45).

5. Responsibility and Accountability

5.1 With Haringey Council, the Corporate Committee will fulfil the functions of '**The Board'**; and the Senior Leadership Team and Statutory Officers' Group will fulfil the functions of **'Senior Management',** as defined by PSIAS.

5.2 The responsibility for maintaining an adequate and effective system of internal audit within Haringey Council lies with the authority's Chief Finance Officer (S151 Officer).

5.3 The Head of Audit and Risk Management is the person designated to fulfil the role of the 'Chief Audit Executive' and is also required to provide an annual opinion to the Council and to the Chief Finance Officer, via the Corporate Committee, on the adequacy and the effectiveness of the internal control system for the whole Council.

5.4 Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas identified by the Council as being of greatest risk and significance and rely on management to provide full access to accounting records and transactions for the purposes of internal audit work and to ensure the authenticity of these documents.

5.5 The remit of Internal Audit covers the entire control environment of the Council. Where appropriate, Internal Audit will undertake audit or consulting work for the benefit of the Council in organisations wholly or partly owned by the Council.

5.6 Internal Audit may also conduct any special reviews requested by the Council, Corporate Committee or the s151 Officer, provided such reviews do not compromise its objectivity, independence or achievement of the approved annual internal audit plan.

5.7 Internal Audit will consider all requests from the Council's external auditors for access to any information, files or working papers obtained or prepared during audit work that has been finalised, which external audit would need to discharge their responsibilities.

6. Independence of Internal Audit

6.1 The Head of Audit and Risk Management has free and unfettered access to:

- Chair of the Corporate Committee;
- Chief Executive;
- Chief Finance Officer;
- Monitoring Officer; and

- Any other member of the Senior Leadership Team and Statutory Officers' Group.

6.2 The Head of Audit and Risk Management reports functionally to the Board, and organisationally to the Assistant Director of Corporate Governance, who is also the Council's Monitoring Officer. The Head of Audit and Risk Management has direct access to the Chief Executive who carries the responsibility for the proper management of the Council and for ensuring that the principles of good governance are reflected in sound management arrangements.

6.3 The independence of the Head of Audit and Risk Management is further safeguarded by ensuring that their annual appraisal is not inappropriately influenced by those subject to audit. This is achieved by ensuring that the Chief Executive and/or the Chair of the Corporate Committee contribute to, and/or review the appraisal of the Head of Audit and Risk Management.

6.4 All Council and relevant contractor staff in Audit and Risk Management are required to make an annual declaration of interest to ensure that auditors' objectivity is not impaired and that any potential conflicts of interest are appropriately managed.

6.5 Internal Audit may also provide consultancy services, such as providing advice on implementing new systems and controls. However, any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the Corporate Committee. To maintain independence, any audit staff involved in significant consulting activity will not be involved in the audit of that area for at least 12 months.

6.6 Where it is considered necessary to the proper discharge of internal audit function, the Head of Audit and Risk Management has direct access to elected Members of the Council and in particular those who serve on committees charged with governance (i.e. the Corporate Committee).

7. Non-audit Areas

7.1 The PSIAS require the Internal Audit Charter to identify any 'Non-audit' areas that fall under the management of the Internal Audit service. For Haringey these are:

- Counter-Fraud and Corruption. Promoting fraud awareness and maintaining effective anti-fraud policies and procedures; acting as a corporate service for the investigation of irregularities and, where criminal investigation is considered, to liaise directly with the police and advise services on such matters. The Fraud Team plays a specific counter-fraud and investigation role jointly with Homes for Haringey in relation to Housing Tenancy Fraud; the investigation of serious whistleblowing concerns raised via the Council's whistleblowing policy also fall within the Team's remit.
- Insurance and operational risk management. Providing a full claims handling service for the Council and Homes for Haringey; procuring and management of all externally provided insurance contracts; management of the leasehold property insurance portfolio; providing claims related and financial information to managers; and training and development on insurance and operational risk management for staff.

- Risk Management. Providing risk management support to Haringey Council; promoting the consistent use of risk management and ownership of risk at all levels across the Council; managing and reviewing the Council's risk management framework.

7.2 In order to fulfil the requirements of the PSIAS and avoid potential conflicts of interest and loss of objectivity, the 'non-audit' functions are independently audited on a regular basis by the externally procured audit service and the Council's external auditors, with the results reported to the Corporate Committee.

8. Reporting

8.1 The PSIAS require the Head of Audit and Risk Management to report at the top of the organisation and this is done in the following ways:

- The Internal Audit Strategy and Charter and any amendments to them are reported to the Statutory Officers' Group and Corporate Committee for review and approval;
- The annual Internal Audit Plan is compiled by the Head Audit and Risk Management, taking account of the Council's risk framework and after input from the Senior Leadership Team and Statutory Officers' Group. It is then presented to the Corporate Committee for formal approval;
- The adequacy, or otherwise, of the level of internal audit resources (as determined by the Head of Audit and Risk Management) and the independence of internal audit is reported annually to the Corporate Committee. The approach to providing resource is set out in the Internal Audit Strategy;
- Performance against the Internal Audit Plan and any significant risk exposures and control issues arising from audit work are reported to the Statutory Officers' Group and Corporate Committee on a quarterly basis;
- Any significant consulting or advisory activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the Corporate Committee;
- Results from internal audit's performance management processes and performance indicators will be reported to the Corporate Committee; and
- Any instances of non-conformance with the Public Sector Internal Audit Standards must be reported to the Corporate Committee and will be included in the annual Head of Internal Audit report. If there is significant non-conformance this may be included in the Council's Annual Governance Statement.

9. Due Professional Care

9.1 The Internal Audit function is bound by the following standards:

- Institute of Internal Auditor's International Code of Ethics;
- Seven Principles of Public Life (Nolan Principles);
- UK Public Sector Internal Audit Standards (PSIAS);
- All Council Policies and Procedures; and
- All relevant legislation.

9.2 Internal Audit is subject to a quality assurance and improvement programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK PSIAS, ongoing performance monitoring and an external assessment (peer review) at least once every five years by a suitably qualified, independent assessor.

9.3 A programme of Continuous Professional Development (CPD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies. The Head of Audit and Risk Management is required to hold a relevant professional qualification (CCAB or equivalent, or CMIIA) and be suitably experienced.

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Public Sector Internal Audit Standards – Self Assessment 2017

		PSIAS Self-Assessment			
PSIAS Reference	**Description of the Standard Required**	**Fully Compliant**	**Partially Compliant**	**Not compliant**	**Notes/ Action Plan to address areas of partial/non compliance**
Code of Ethics	Internal auditors and the organisation conform to the 'Code of Ethics' incorporating: Integrity; Objectivity; Confidentiality; and Competency.	✓			
	Internal auditors are aware of the Committee on Standards of Public Life's 'Seven Principles of Public Life'.	✓			
1000. Purpose, Authority and Responsibility	Internal audit has a charter which includes a formal definition of the purpose, authority and the responsibility of the internal audit activity consistent with the PSIAS.	✓			Updated Charter November 2017.
	The charter defines the terms 'board' and 'senior management', for the purposes of the internal audit activity.	✓			
	The charter defines the role of internal audit in any fraud-related work.	✓			
	The charter includes arrangements for avoiding conflicts of interest if internal audit take on 'non-audit' activities?	✓			
1100. Independence and Objectivity	The Chief Audit Executive (CAE) has direct and unrestricted access to senior management and the board.	✓			
	The CAE reports to an organisational level equal or higher to the corporate management team.	✓			
	The Chief Executive and Audit		✓		Chief Executive has oversight of the

Public Sector Internal Audit Standards – Self Assessment 2017

		PSIAS Self-Assessment			
PSIAS Reference	**Description of the Standard Required**	**Fully Compliant**	**Partially Compliant**	**Not compliant**	**Notes/ Action Plan to address areas of partial/non compliance**
	Committee Chair countersign, provide feedback on and review the CAE's performance appraisal.				process as part of the corporate policy and moderation process.
	There are appropriate safeguards to ensure that non-audit activities undertaken by the CAE do not compromise independence, or objectivity.	✓			
	The CAE reports any potential or perceived impairment to independence to the Board	✓			No issues identified, but the Head of Audit & Risk Management would report as required.
	The Board approves any significant additional consulting services not already included in the audit plan, prior to accepting the engagement.		✓		Consulting services not usually provided as part of the audit plan, but approval for any significant work would be obtained if required.
1200. Proficiency and Due Professional Care	The CAE holds a professional qualification (CMIAA, CCAB or equivalent) and be suitably experienced.	✓			
	Internal Auditors undertake continuing professional development	✓			Part of the externally procured contract terms and conditions
	Internal auditors must be suitably qualified and experienced individually and collectively to perform their responsibilities.	✓			Part of the externally procured contract terms and conditions
1300. Quality Assurance and Improvement Programme (QAIP)	QAIP covers all aspects of activity and enables compliance with all aspects of PSIAS to be evaluated	✓			Part of the contract terms and conditions; subject to review by CAE.

Public Sector Internal Audit Standards – Self Assessment 2017

		PSIAS Self-Assessment			
PSIAS Reference	**Description of the Standard Required**	**Fully Compliant**	**Partially Compliant**	**Not compliant**	**Notes/ Action Plan to address areas of partial/non compliance**
	An external independent assessment of the internal audit services has been completed at least once every five years.	✓			Next peer review due in 2018/19.
	Any areas of non-compliance with the PSIAS have been reported to the Audit Committee.	✓			No significant areas of non-compliance highlighted in 2016/17, or 2017/18.
	Any areas of non-compliance are included in the Annual Governance Statement.	✓			No significant areas of non-compliance highlighted in 2016/17, or 2017/18.
2000. Managing the Internal Audit Activity	The CAE has established risk based audit plans with priorities consistent with organisational objectives and priorities.	✓			
	In developing the plan, the CAE has taken the organisation's risk management framework into account.	✓			
	The risk based plan sets out how internal audit resources have been assessed. If the CAE believes that the level of resources will impact adversely on the provision of the internal audit opinion, this has been brought to the attention of the Board.	✓			
	The CAE has established policies and procedures which comply with PSIAS to manage the internal audit activity	✓			
	The CAE reports regularly to Senior Management and the Board on internal	✓			Quarterly progress reports.

Public Sector Internal Audit Standards – Self Assessment 2017

		PSIAS Self-Assessment			
PSIAS Reference	**Description of the Standard Required**	**Fully Compliant**	**Partially Compliant**	**Not compliant**	**Notes/ Action Plan to address areas of partial/non compliance**
	audit activity				
2100. Nature of Work	The internal audit activity evaluates and contributes to the improvement of the organisation's governance, risk management and internal control processes.	✓			
	The internal audit activity evaluate the effectiveness and contributes to the improvement of risk management processes.	✓			
	The internal audit activity evaluates the potential for fraud and how fraud risk is managed?	✓			
2200. Engagement Planning	Auditors develop and document a plan for each engagement, including the objectives, scope, timing and resource allocations.	✓			
2300. Performing the engagement	The internal audit identifies, analyses, evaluates and documents sufficient information to achieve the engagement's objectives.	✓			
2400. Communicating Results	The outcomes of internal audits are communicated to relevant stakeholders, including applicable conclusions, assurance ratings, recommendations and action plans.	✓			
	The outcomes of internal audits are reported in a timely manner to all relevant stakeholders.	✓			

Public Sector Internal Audit Standards – Self Assessment 2017

		PSIAS Self-Assessment			
PSIAS Reference	**Description of the Standard Required**	**Fully Compliant**	**Partially Compliant**	**Not compliant**	**Notes/ Action Plan to address areas of partial/non compliance**
	The CAE delivers an annual internal audit opinion which concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.	✓			
	The CAE's annual opinion includes a statement on conformance with the PSIAS.	✓			

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