NOTICE OF MEETING

CORPORATE COMMITTEE

Tuesday, 5th February, 2019, 7.00 pm - Civic Centre, High Road, Wood Green, N22 8LE

Members: Councillors Isidoros Diakides (Chair), Dana Carlin (Vice-Chair), Dawn Barnes, Barbara Blake, Eldridge Culverwell, Makbule Gunes, Mike Hakata, Liz Morris, Alessandra Rossetti, Yvonne Say and Daniel Stone

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 - 10)

To consider and agree the minutes of the meeting held on 3rd December.

7. TREASURY MANAGEMENT STATEMENT 2019/2020 (PAGES 11 - 36)

8. AUDIT PROGRESS UPDATE (PAGES 37 - 46)

9. HOUSING BENEFITS SUBSIDY CERTIFICATION REPORT (PAGES 47 - 56)

10. NEW ITEMS OF URGENT BUSINESS

To consider any items of urgent business as identified at item 3.

11. DATE AND TIME OF NEXT MEETING

26th March

Philip Slawther, Principal Committee Co-ordinator
Tel – 020 8489 2957
Fax – 020 8881 5218
Email: philip.slawther2@haringey.gov.uk

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

Monday, 28 January 2019

MINUTES OF THE MEETING OF THE CORPORATE COMMITTEE HELD ON MONDAY, 3RD DECEMBER, 2018, 19:00.

PRESENT:

Councillors: Isidoros Diakides (Chair), Dana Carlin (Vice-Chair), Dawn Barnes, Barbara Blake, Eldridge Culverwell, Makbule Gunes, Liz Morris, Alessandra Rossetti and Yvonne Say

39. 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.

40. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS (IF ANY)

Apologies for absence were received from Cllr Hakata and Cllr Stone.

41. URGENT BUSINESS

There were no items of urgent business.

42. DECLARATIONS OF INTEREST

Cllr Rossetti and Cllr Carlin advised that they sat on the HfH Board.

43. DEPUTATIONS / PETITIONS / PRESENTATIONS / QUESTIONS

None.

44. MINUTES

The Committee commented that, in relation to the action around asset disposals, the minutes suggested that the Committee had considered the issue and that a discussion had taken place, rather than a statement made by the Chair at the meeting of 24th July. The Committee requested that the minutes be amended to better reflect this. **(Action: Clerk).**

The Committee reiterated its request to receive some information around the use of an exemption process in relation to asset disposals. The Legal advisor to the Committee cautioned that discussions with the Chair were ongoing around the most appropriate forum to consider the issue if there was indeed an issue. It was suggested that this issue was not within the Terms of Reference for Corporate Committee and that it may be more appropriate for Overview and Scrutiny Committee to consider the matter. Members of the Committee felt that this should be an issue for Corporate Committee as it related to the Council's governance and reputation.

The Committee requested that they receive a position statement and a list of the relevant properties at the next meeting, setting out where officers had got to in providing this information. Action: **(Minesh Jani/Clerk).**

The Head of Audit and Risk Management advised that a follow-up audit had been undertaken at Chestnuts School. It was noted that the report was still being prepared, but that an improvement in the overall assurance level was anticipated. An audit for Stamford Hill School had to be postponed and would be rearranged for after the Christmas holidays.

The Head of Audit and Risk Management also advised that two training sessions for school governors were held on 25th September, with around 25 people in attendance. Two further sessions were being set up and it was also anticipated that there would be a further training session specific to anti-fraud considerations.

The Committee requested an update from the AD Schools and Learning on the audit process for academy schools and on the analysis of which schools did not attend audit training and any correlation with those receiving poor audit scores. **(Action: Clerk).**

In relation to the use of income generated from events held in Finsbury Park, officers advised the Committee that this information had been shared with the Friends of Finsbury Park. The Legal advisor to the Committee agreed to share the information that was sent to the solicitors acting on behalf of the Friends group as part of the litigation process. **(Action: Legal Advisor).**

The Committee reiterated its concerns in relation to the monitoring of fraud investigations and keeping a record of whom they were targeted against, for equalities purposes. The Committee noted that there had been recent articles in the press around the targeting of certain ethnic minorities by the Police and cautioned that this could become a significant issue. In response, the Chair agreed to meet with officers and the relevant Committee members to discuss how best to progress the issue outside of the meeting. **(Action: Chair).**

RESOLVED

That the minutes of the meeting on 20th September be agreed as a correct record of the meeting, subject to the above amendment.

45. UPDATE ON RENAMING OF TOWN HALL APPROACH ROAD TO NEW WINDRUSH GARDENS

The AD for Planning gave a verbal update to the Committee. It was noted that the Council consulted with 52 addresses on Town Hall Approach Road, 43 of whom were within the business centre. Of the seven responses received, one was in support of the name change and six were objections, most objections related to the additional costs likely to be incurred. Of the two businesses that offered a financial breakdown, one requested £3k and the other £2480 in reimbursement of costs. The Committee was advised that it was anticipated that the costs would run to at least £21.5k. As a result it was decided not to proceed with the name change due to the costs involved. The AD Planning advised that officers would be looking to incorporate the name into one of the new developments taking place in Tottenham.

RESOLVED

The Committee noted the verbal update.

46. HEALTH AND SAFETY POLICY REVIEW, STRATEGY AND ANNUAL REPORT.

The Committee received a report which sought approval for the draft Corporate Health and Safety Strategy 2018-2022, as well as the draft Corporate Health, Safety and Wellbeing Statement Policy. The Committee were also asked to note the Health and Safety Annual Report 2017-18, which was included in the report at Appendix C. The report was introduced by Andrew Meek, the Head of Organisational Resilience and was included in the published agenda pack at pages 9-56.

The following was noted in discussion of the report:

a. In response to a request for clarification, the Committee was advised that it was responsible for Health and Safety in relation to people who were not Council employees who used Council premises as a place of work, such as agency workers or who are otherwise affected by the Council's activities, such as service users. Staffing and Remuneration Committee was responsible for Health and Safety in relation to Council employees.
b. The Committee raised concerns that the definition above, as set out in paragraph 4.4 or the report, seemed to be limited to full/part time employees and suggested that it should be broadened to include temporary workers. The Committee also requested that an amendment be made to the first paragraph after the bullet point on page 30 of the agenda pack to make it clear that agency workers under the Council's control also have the right to refuse to carry out a dangerous activity. The Head of Organisational Resilience agreed to amend this. **(Action: Andrew Meek).**
c. In response to a query around performance indicators that related to members of the public, officers advised that this was captured by Indicator 4: The number of 'major' and '7 day' accidents. The Head of Organisational Resilience agreed to look at rewording the indicator to make the fact that it related to members of the public clearer. **(Action: Andrew Meek).**
d. In response to a concern about staffing levels within the Health and Safety Team officers advised that, after a delay, a team manager had been recruited and was in post. Similarly, two Health and Safety Advisor posts were being recruited so that the service would have a full complement of staff. The Committee was assured that these would be full-time permanent Council employees.
e. The Committee sought reassurance about why the monthly Property Compliance Board meetings were discontinued. In response, officers advised that the Board would be re-established with a different format as there were

problems with the previous iteration in relation to receiving like for like advice for different property types.

f. The Head of Organisational Resilience agreed to come back to the Committee with further information in relation to the three maintained schools that scored as ‘poor’ on the Health and Safety questionnaire and the extent to which this was due to incorrectly filling in the form. **(Action: Andrew Meek).**
g. The Committee raised concerns with a number of areas of building compliance set out in the Annual Report and commented that there did not seem to be details of corrective action or risk profile. In response, officers acknowledged these concerns and advised that areas of non-compliance were being addressed with Amey. The Head of Organisational Risk agreed to liaise with the Chair around reporting back to the Committee on this issue and a suitable timeframe for doing so. It was suggested that this would be in 6 months’ time. **(Action: Andrew Meek).**

RESOLVED

I. That the Committee approved the draft Corporate Health and Safety Strategy 2018-2022, attached at Appendix A of the report.

II. That the Chief Executive is authorised in consultation with the Chair of the Committee, with the Corporate Health, Safety and Wellbeing Board and with the Corporate Board to make such amendments to the Strategy as s/he considers minor, such amendments to be reported to the meeting of the Committee next following such amendments being made.

III. That the Committee approved the draft Corporate Health, Safety and Wellbeing Statement Policy, attached at Appendix B of the report.

IV. That the Chief Executive is authorised in consultation with the Chair of the Committee, with the Corporate Health, Safety and Wellbeing Board and with the Corporate Board to make such amendments to the Policy as s/he considers minor, such amendments to be reported to the meeting of the Committee next following such amendments being made.

V. That the Committee notes the Health Safety Annual Report for 2017-2018, attached at Appendix C of the report.

47. TREASURY MANAGEMENT UPDATE Q2

The Committee received a report which provided an update on the Council’s treasury management activities and performance in the six months to September 2018. The report was introduced Thomas Skeen, Head of Pensions. The following was noted in discussion of the report:

a. The Council expected to carry out additional long term borrowing in 2018/19. £50m of additional long term borrowing was taken in the month of October at an average interest rate of 2.61%. This was taken to fund the Council’s capital programme.

b. Officers advised the Committee that the Treasury Management Strategy for 2019/12 would be set in January and that this would contain an updated policy position around options to repay LOBO loans.
c. In response to a query around a worsening credit score in Quarters one and two of 2018-19, officers advised that this was a result of having all of their investments with the Debt Management Office on 31st March 2018, which had a better credit score than later investments through money market funds.
d. In response to a question around the feasibility of restructuring long term borrowing from the PWLB in light of low interest rates, officers advised that these loans has set maturity dates and paying back the loan early would involve a premium. Officers assured the Committee that as old loans matured the Council would take out new loans with a lower rate of borrowing.
e. In response to a request for clarification about the impact of the Government lifting the HRA Debt Cap, officers advised that this meant that in theory the Council could borrow as much in the HRA as in the General Fund, as long it was prudential and the Council was able to service the debt.

RESOLVED

I. That Members note the Treasury Management activity undertaken during the six months to 30 September 2018 and the performance achieved.

II. That Members note that all treasury activities were undertaken in line with the approved Treasury Management Strategy: in particular the prudential indicators with fixed limits shown in Appendix 1 of the report.

48. INTERNAL AUDIT ASSURANCE REPORT

The Committee received a report which set out the work undertaken by Internal Audit for the quarter ending October 2018. The report was introduced by Minesh Jani, Head of Audit and Risk Management.

In response to a concern from some members that they had not received a monthly report setting out detailed findings from final audit reports, the Head of Audit and Risk Management agreed to circulate this to the Committee. **(Action: Minesh Jani).**

RESOLVED

I. That the Committee noted the audit coverage and follow-up work completed.

49. UPDATED INTERNAL AUDIT PLAN

The Committee received the Internal Audit Plan, which set out the audit activity planned for the current financial year and reflected changes made to the plan as a result of changing priorities and resources available to perform audit work.

In response to a question, the Head of Audit and Risk Management confirmed that benchmarking against other authorities was undertaken as part of the audit process.

RESOLVED

I. The Committee noted the changes proposed and endorsed the revised 2018/19 internal audit plan attached at Appendix A of the report.

50. COUNTER-FRAUD UPDATE REPORT

The Committee received a report which detailed the work undertaken by the Counter-Fraud Team for the quarter ending 30 September 2018. The report was introduced by Minesh Jani, Head of Audit and Risk Management. The following was noted in discussion of the report:

a. There were eight employee investigations under review in Quarter 2, two of which had been referred to the Police. Of those two cases one was not being progressed by the police due to insufficient evidence.
b. The Committee raised concerns about whether HfH major works claimed for by contractors were actually carried out and whether the cost of some of these may have been double counted. The Committee suggested that monitoring leaseholder complaints was probably an effective yard-stick to measure where problems may exist. In response, the Head of Audit and Risk Management commented that the Council had a Whistleblowing Policy in place and that the Council was also part of the National Fraud Initiative 2018. The Council had submitted their datasets to the National Fraud Initiative in October and was expecting to get data matches back in January. The Head of Audit and Risk Management agreed to come back to the Committee, following receipt of data matches, on potential fraud by contractors carrying out HfH major works. **(Action: Minesh Jani).**
c. The Committee raised concerns about potential employee fraud in relation to housing applications. The Committee queried whether additional safeguards could be put in place, such as only officers at a certain level being able make a direct offer to tenants.

RESOLVED

I. The Committee noted the counter-fraud work completed to the end of Quarter 2.

51. ANY OTHER BUSINESS OF AN URGENT NATURE

N/A

52. DATE AND TIME OF NEXT MEETING

5th February at 19:00.

CHAIR: Councillor Isidoros Diakides

Signed by Chair ………………………………..

Date ………………………………

Corporate Committee
Action Tracker

Mtg. Date	Action	Response	Who by	Completed
3rd December	The Committee requested a position statement around the request for information in relation to asset disposals.	A table of major asset disposals undertaken since 2014 has been sent to the Chair.	Steve Carr/Clerk	
3rd December	Update from the AD Schools and Learning on the audit process for academy schools and on the analysis of which schools did not attend audit training and any correlation with those receiving poor audit scores.	Officers have been chased for a response.	Eveleen Riordan/Clerk	Ongoing
3rd December	The Legal advisor to the Committee agreed to share the information on income generated from events held in Finsbury Park that was sent to the Friends groups.	Email sent to Members on 4th December.	Raymond Prince	Y
3rd December	Chair agreed to meet with officers and the relevant Committee members to discuss how best to progress the issue around equalities monitoring and fraud investigations.		Chair	Ongoing
3rd December	The Committee raised concerns that the definition set out in the report seemed to be limited to full/part time employees and suggested that it should be broadened to include temporary workers and also make clear that agency workers under the Council's control also have the right to refuse to carry out a dangerous activity.	These amendments have been made.	Andrew Meek	Y
3rd December	Indicator 4: The number of 'major' and '7 day' accidents. Request to reword the indicator to make the fact that it related to members of the public clearer.	Indicator 4 of the Health and Safety Strategy was changed to reflect that MoP were considered "The number of 'Major' and '7 day' accidents (RIDDOR) (including those that relate to members of the public)".	Andrew Meek	Y
3rd December	The Head of Organisational Resilience agreed to come back to the Committee with further information in relation to the three maintained schools that scored as 'poor' on the Health and Safety questionnaire and the extent to which this was due to incorrectly filling in the form.	The 3 schools that scored '*Poor*' were for the following reasons: • Risk assessments mentioned on the assurance questionnaire were not recorded as being carried out or not. It is believed some of them were not applicable but the score did not take that into account. • Some parts of the assurance form were	Andrew Meek	Y

		incomplete. • The Corporate Health and Safety Team will monitor closely the returns for 2018/2019 (to be received by 15th February 2019 by maintained schools that do not sign up to the Health and safety for Schools SLA) to ensure the forms are properly and fully completed. The team will also carry out a H&S Audit on those schools that score 'Poor'.		
3rd December	The Committee raised concerns with a number of areas of building compliance set out in the Annual Report and commented that there did not seem to be details of corrective action or risk profile. A report back to the Committee was requested, suggested that it would be in 6 months' time.	The next Property Compliance Board is on 14/02/2019. A new reporting system has been proposed so different sections in charge of properties can report on compliance on a systematic way. These will allow the service to risk profile the Council's stock.	Andrew Meek	Ongoing
3rd December	Head of Audit and Risk Management agreed to circulate a monthly report setting out detailed findings from final audit reports.	Report circulated.	Minesh Jani	Completed
20th September	The Head of Audit and Risk Management agreed to come back to the Committee, following receipt of data matches, on potential fraud by contractors carrying out HfH major works	This will form part of an upcoming National Fraud Initiative report.	Minesh Jani	Ongoing
20th September	The Head of Audit and Risk Management agreed to speak to Mazars to produce some benchmarking around school audit compliance with statistical neighbours.	This action in ongoing.	Minesh Jani	Ongoing
20th September	The Cabinet Member undertook to work with the Head of Audit to set up another governance training session for schools and to also write to school governors to remind them to attend.	Head of Audit and Risk Management has arranged governance training in February.	Minesh Jani/Cllr Weston	Ongoing
20th September	The Committee requested an update on the recommendations to the End of Year Accounts on agreed actions at its meeting on 5th February 2019	A verbal update would be given to the Committee on 5th Feb.	Thomas Skeen	Ongoing
20th September	The Head of Audit and Risk Management agreed to come back to the Committee with further details of audit findings in relation to post-19 education providers referring service users, without adequate	Included in schools audit briefing.	Minesh Jani	Y

	consideration of their specific needs.			
20th September	The Committee requested that an audit of the procurement process be undertaken as part of the audit programme for 2019/2020.	This has been added to the audit programme for 2019/20.	Minesh Jani	Y

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Agenda Item 7

Report for: Corporate Committee 5 February 2019

Item number:

Title: Treasury Management Strategy Statement 2019/20 – 2021/22

Report authorised by: Jon Warlow, Director of Finance (S151 Officer)

Lead Officer: Thomas Skeen, Head of Pensions, Treasury & Chief Accountant
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 To present the Treasury Management Strategy Statement for 2019/20 – 2021/22 to the Corporate 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 Treasury Management Strategy Statement for 2019/20 to 2021/22 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.

5. Alternative Options Considered

5.1 None

6. Background information

6.1. The CIPFA Treasury Management Code of Practice requires that the Treasury Management Strategy Statement is formulated by the Committee responsible for the monitoring of treasury management, is then subject to scrutiny before being approved by Full Council. In Haringey, the Corporate Committee is responsible for formulating the Treasury Management Strategy Statement for recommendation to full Council through Overview and Scrutiny Committee. Any comments by Overview and Scrutiny will be reported to Corporate Committee. Training will be provided in advance of the meeting by Arlingclose, the Council's Treasury advisor.

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

6.3. The Council's policy regarding LOBO loans has been updated, see paragraph 4.10-4.12 of Appendix 2, the Treasury Management Strategy Statement.

7. Contributions to Strategic Outcomes

7.1 The treasury strategy will influence the achievement of the Council's 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 is a requirement of the CIPFA Treasury Management Code of Practice and CIPFA Prudential Code.

8.2 Financial Comments are contained throughout the treasury management strategy statement.

Legal

8.3 The Assistant Director of Corporate Governance has been consulted on the content of this report. The Council must make arrangements for the proper administration of its financial affairs and its power of borrowing is set out in legislation.

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.

8.5 As mentioned in this report the CIPFA Treasury Management Code of Practice and the CIPFA Prudential Code 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 – Treasury Management Strategy Statement 2019/20 – 2021/22.

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 various 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 Council's limits for various aspects of treasury management.

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 table 1. 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 credit, monetary and time limits (set out in table 3 of the strategy) and officers cannot lend the Council's monies to any institution not on this list. 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.

London Borough of Haringey

Treasury Management Strategy Statement 2019/20

1. **Introduction**

1.1. Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management.

1.2. Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

1.3. Investments held for service purposes or for commercial profit are considered in section 6 of this report.

1.4. The single largest external variable that frames the context of the Council's treasury strategy for 2019/20 is Brexit. This strategy has been reviewed and updated in light of this, and provides the Council with the means and flexibility to deal with a range of eventualities or outcomes as necessary.

2. **External Context – provided by the Council's appointed treasury advisor, Arlingclose**

2.1. **Economic background:** The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Authority's treasury management strategy for 2019/20.

2.2. UK Consumer Price Inflation (CPI) for October was up 2.4% year/year, slightly below the consensus forecast and broadly in line with the Bank of England's November Inflation Report. The most recent labour market data for October 2018 showed the unemployment rate edged up slightly to 4.1% while the employment rate of 75.7% was the joint highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.3% as wages continue to rise steadily and provide some pull on general inflation. Adjusted for inflation, real wages grew by 1.0%, a level still likely to have little effect on consumer spending.

2.3. The rise in quarterly GDP growth to 0.6% in Q3 from 0.4% in the previous quarter was due to weather-related factors boosting overall household consumption and construction activity over the summer following the weather-related weakness in Q1. At 1.5%, annual GDP growth continues to remain below trend. Looking ahead, the BoE, in its November Inflation Report, expects GDP growth to average around 1.75% over the forecast horizon, providing the UK's exit from the EU is relatively smooth.

2.4. Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy has been made since. However, the Bank expects that should the economy continue to evolve in line with its November forecast, further increases in Bank Rate will be required to return inflation to the 2% target. The Monetary Policy Committee continues to reiterate that any further increases will be at a gradual pace and limited in extent.

2.5. While US growth has slowed over 2018, the economy continues to perform robustly. The US Federal Reserve continued its tightening bias throughout 2018, pushing rates to the current 2%-2.25% in September. Markets continue to expect one more rate rise in December, but expectations are fading that the further hikes previously expected in 2019 will materialise as concerns over trade wars drag on economic activity.

2.6. **Credit outlook:** The big four UK banking groups have now divided their retail and investment banking divisions into separate legal entities under ringfencing legislation. Bank of Scotland, Barclays Bank UK, HSBC UK Bank, Lloyds Bank, National Westminster Bank, Royal Bank of Scotland and Ulster Bank are the ringfenced banks that now only conduct lower risk retail banking activities. Barclays Bank, HSBC Bank, Lloyds Bank Corporate Markets and NatWest Markets are the investment banks. Credit rating agencies have adjusted the ratings of some of these banks with the ringfenced banks generally being better rated than their non-ringfenced counterparts.

2.7. The Bank of England released its latest report on bank stress testing, illustrating that all entities included in the analysis were deemed to have passed the test once the levels of capital and potential mitigating actions presumed to be taken by management were factored in. The BoE did not require any bank to raise additional capital.

2.8. European banks are considering their approach to Brexit, with some looking to create new UK subsidiaries to ensure they can continue trading here. The credit strength of these new banks remains unknown, although the chance of parental support is assumed to be very high if ever needed. The uncertainty caused by protracted negotiations between the UK and EU is weighing on the creditworthiness of both UK and European banks with substantial operations in both jurisdictions.

2.9. **Interest rate forecast:** Following the increase in Bank Rate to 0.75% in August 2018, the Authority's treasury management adviser Arlingclose is forecasting two more 0.25% hikes during 2019 to take official UK interest rates to 1.25%. The Bank of England's MPC has maintained expectations for slow and steady rate rises over the forecast horizon. The MPC continues to have a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. Arlingclose believes that MPC members consider both that ultra-low interest rates result in other economic problems, and that higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise when rate cuts will be required.

2.10. The UK economic environment remains relatively soft, despite seemingly strong labour market data. Arlingclose's view is that the economy still faces a challenging outlook as it exits the European Union and Eurozone growth softens. While assumptions are that a Brexit deal is struck and some agreement reached on transition and future trading arrangements before the UK leaves the EU, the possibility of a "no deal" Brexit still hangs over economic activity *(at the time of writing this commentary in mid-December)*. As such, the risks to the interest rate forecast are considered firmly to the downside.

2.11. Gilt yields and hence long-term borrowing rates have remained at low levels but some upward movement from current levels is expected based on Arlingclose's interest rate projections, due to the strength of the US economy and the ECB's forward guidance on higher rates. 10-year and 20-year gilt yields are forecast to remain around 1.7% and 2.2% respectively over the interest rate forecast horizon, however volatility arising from both economic and political events are likely to continue to offer borrowing opportunities.

2.12. A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix A.

2.13. For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 1.0%, and that new long-term loans will be borrowed at an average rate of 3.0%.

3. Local Context

3.1. On 31st December 2018, the Authority held £384.2m of borrowing and £56.9m of investments. Forecast changes to borrowing balances are shown in the balance sheet analysis in table 1 below.

3.2. Table 1: Balance sheet summary and forecast

	31.3.18 Actual £m	31.3.19 Estimate £m	31.3.20 Forecast £m	31.3.21 Forecast £m	31.3.22 Forecast £m
General Fund CFR	343.3	437.1	562.3	660.4	726.1
HRA CFR	248.7	248.9	260.1	310.7	485.0
Total CFR	**591.9**	**686.0**	**822.4**	**971.0**	**1,211.1**
Less: Other debt liabilities *	-34.0	-30.3	-26.5	-22.8	-19.0
Loans CFR	**557.9**	**655.7**	**795.9**	**948.3**	**1,192.1**
Less: External borrowing **	-365.4	-383.8	-357.7	-350.4	-340.4
Less: Internal borrowing	-192.6	-192.6	-182.1	-182.1	-182.1
New Borrowing Required (cumulative)	**-**	**79.4**	**256.1**	**415.8**	**669.6**

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

** shows only loans to which the Authority is committed and excludes optional refinancing

3.3. The capital plans which underpin the borrowing requirement above are dealt with in the council's main budget report (in particular the Capital Strategy section). All of the Council's capital programme is robustly scrutinised and tested to ensure that the capital plans are affordable and prudent. The above shows the three year effects of the Council's capital programme, however all capital plans are assessed in their entirety (i.e. some schemes are for a greater than 3 year time frame).

3.4. The Council's HRA business plan is still developing in light of the debt cap removal, and as such, the HRA borrowing element is still under active review. The figures above represent the most up to date figures at the time of publication of this report, however, given the timing of other reports that form part of the Council's budget process, it may be the case that the HRA figures differ slightly from those published within the Council's main budget report, which will be the final figures.

3.5. 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 Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

3.6. The Authority has an increasing CFR due to the capital programme, but minimal investments and will therefore be required to borrow up to £670m over the forecast period.

3.7. CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2019/20.

4. <u>**Borrowing Strategy**</u>

4.1. The Authority currently holds £384 million of loans, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Authority expects to borrow up to £256m by the end of 2019/20. The Authority may also borrow additional sums to externalise the extent of its existing internal borrowing to satisfy future years' borrowing requirements, providing this does not exceed the authorised limit for borrowing as set out in table 2 of this report.

4.2. **Objectives:** The Authority'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 Authority's long-term plans change is a secondary objective.

4.3. **Strategy:** Given the significant cuts to public expenditure and in particular to local government funding, the Authority'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. However, given the size of the Council's capital programme, and the need to diversify the Council's debt portfolio, long term borrowing will also be required during 2019/20, so the strategy will be to fulfil the Council's borrowing requirement with a mixture of long and short term borrowing.

4.4. By taking short term borrowing, the Authority is able to reduce net borrowing costs. The benefits of short term borrowing will be monitored regularly against the potential for incurring additional costs by deferring longer term borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine to what extent the Authority borrows additional sums at long-term fixed rates in 2019/20 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

4.5. Alternatively, the Authority may arrange forward starting loans during 2019/20, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

4.6. In addition, the Authority may borrow short-term loans to cover unplanned cash flow shortages.

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

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except Haringey Pension Fund, and the London Collective Investment Vehicle)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

4.8. **Other sources of debt finance:** In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:
- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

4.9. The Authority 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.

4.10. **LOBOs:** The Authority 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 Authority has the option to either accept the new rate or to repay the loan at no additional cost. £75m of these LOBOs have options during 2019/20, and although the Authority 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 repay LOBO loans with no penalty if it can, however, it recognises that lenders are highly unlikely to offer this while the interest rates on existing loans remain above prevailing rates.

4.11. Some LOBO lenders are now open to negotiating premature exit terms from LOBO loans via payment of a premium to the lender. Haringey Council's policy will be to exit LOBO agreements if the costs of replacing the loans, including all premium, transaction and funding costs, generate a material net revenue saving for the Council over the life of the loan in net present value terms, and all costs are consistent with Haringey's approved medium term financial strategy. Whether to repay a LOBO loan will be determined by the S151 Officer, in line with Haringey's constitution.

4.12. When loans are prematurely repaid, there is usually a premium payable to the lender, to compensate them for interest forgone at the contractual rate, where prevailing interest rates are lower. Haringey would need to refinance LOBOs by raising borrowing for both the original sum borrowed, and the premium payable to the lender. However, this type of arrangement can prove beneficial where interest savings exceed premium costs. Replacing LOBOs, that contain an option for lenders to increase the rate, with fixed rate debt will reduce refinancing and interest rate risk.

4.13. **Short-term and variable rate loans**: These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.

4.14. **Debt rescheduling:** 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 Authority 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.

4.15. **Borrowing Limits:** The council's total borrowing limits are set out in the table below. 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 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.

4.16. 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.

4.17. 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.

4.18. Table 2 Borrowing Limits

	2018/19 limit	2019/20 limit	2020/21 limit	2021/22 limit
	£m	£m	£m	£m
Authorised limit – borrowing	618.4	752.4	901.0	1,141.1
Authorised limit – PFI & leases	43.3	39.9	35.0	30.1
Authorised limit – total external debt	**661.6**	**792.3**	**936.0**	**1,171.2**
Operational boundary - borrowing	568.4	702.4	851.0	1,091.1
Operational boundary – PFI & leases	39.9	36.3	31.8	27.3
Operational boundary – total external debt	**608.3**	**738.7**	**882.9**	**1,118.4**

5. **Investment Strategy - Treasury Investments**

5.1. The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has generally ranged between £10 and £50 million, and similar levels are expected to be maintained in the forthcoming year. It is a requirement of the Markets in Financial Instruments Directive II that the Council maintains an average investment balance of at least £10m, in order to remain professional client status (see also par 11.6)

5.2. **Objectives:** The CIPFA Code requires the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Were balances to be invested for more than one year, the Authority would aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

5.3. **Negative interest rates:** If the UK enters into a recession in 2019/20, 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.

5.4. **Strategy:** Given the increasing risk and very low returns from short-term unsecured bank investments, the Authority aims to maintain its policy of utilising highly creditworthy and highly liquid investments such as loans to other local authorities, AAA rated money market funds and the Debt Management Office (part of HM treasury).

5.5. **Business models:** Under the new IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

5.6. **Approved counterparties:** The Authority may invest its surplus funds with any of the counterparty types in table 3 below, subject to the cash limits (per counterparty) and the time limits shown.

5.7. Table 3: Approved investment counterparties and limits

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	£5m per local authority	364 days
Term Deposits/ Call Accounts/ Certificates of Deposit/Covered Bonds	UK or AA+ Rated Country	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

*These limits apply for both Haringey Council and Haringey pension Fund, so in practice, the limit is £5m per MMF and £25m group limit for the Council, and £25m for the fund.

5.8. **Credit rating:** Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

5.9. **Banks unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. 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. See below for arrangements relating to operational bank accounts.

5.10. **Banks secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. 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. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

5.11. **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

5.12. **Operational bank accounts:** The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £10m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

5.13. **Risk assessment and credit ratings**: Credit ratings are obtained and monitored by the Authority'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.

5.14. 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 only investments that can be withdrawn 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.

5.15. **Other information on the security of investments**: The Authority 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, reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

5.16. 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 Authority 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 Authority'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.

5.17. **Investment limits**: The Authority's revenue reserves expressly available to cover investment losses are forecast to be £5 million on 31st March 2019. In order that no more than 100% of 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 £5 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes.

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

6. Investment Strategy – Non-Treasury Management Investments

6.1. The Authority invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments –** see section 5 of this report),
- to support local public services by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

6.2. This section (section 6) is a new part of this report for 2019/20, meeting the requirements of statutory guidance issued by the government in January 2018, and focuses on the second and third of the above categories.

6.3. Treasury Management Investments

6.3.1. The Authority typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between £10m and £50m during the 2019/20 financial year.

6.3.2. **Contribution:** The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

6.3.3. **Further details:** Full details of the Authority's policies and its plan for 2019/20 for treasury management investments are covered in the previous section, section 5 of this report

6.4. <u>**Service Investments:**</u>

6.4.1. **Contribution:** The Council lends money to third parties such as its subsidiaries, local businesses, local charities, local residents and its employees to support local public services and stimulate local economic growth. These are often treated as capital expenditure and included within the Council's capital programme

6.4.2. **Security:** The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, it will be ensured that any new loans made will remain proportionate to the size of the Authority. Balances as at 31.3.18 were as follows:

6.4.3. *Table 4: Loans for service purposes in £ millions*

	31.3.2018 actual		
Category of borrower	**Balance owing**	**Loss allowance**	**Net figure in accounts**
Subsidiaries	0.3	-0.3	0.0
Local businesses	4.5	0.0	4.5
Local charities	47.8	-43.5	4.3
Local residents	0.1	0.0	0.1
Employees	0.1	0.0	0.1
TOTAL	52.8	-43.8	9.0

6.4.4. The largest balance above relates to Alexandra Palace debts (shown under local charities). There is a large amount of historic debt that a provision was created for, however this has not been written off. The loans to local business include the opportunity investment fund, and a loan to a business who operates some of Haringey's leisure facilities.

6.4.5. Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's statement of accounts from 2018/19 onwards will be shown net of this loss allowance. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

6.4.6. **Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding service loans by weighing up the service outcomes any such loan could provide against the creditworthiness of the recipient. This is done on a case by case basis, given the low number of such arrangements. This forms part of the Council's capital programme, further details of which are in the Council's annual medium term financial strategy.

6.5. **Commercial Investments: Property**

6.5.1. **Contribution:** The Council holds properties which are classified as 'investment properties' in the Council's statement of accounts. These properties are all within the local area, and the revenue stream associated with these (net of the costs of maintaining the properties) forms part of the Council's annual budget, therefore contributing to the resources available to the Council to spend on local public services.

6.5.2. The value of investment properties disclosed in the 2017/18 statement of accounts was £66.9m.

7. Capacity, Skills, Culture and Advice

7.1. 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.

7.2. 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.

7.3. 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.

7.4. 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.

7.5. Appropriately skilled and experienced finance and legal staff members work with service departments to ensure that the risks associated with any projects they undertake, and compliance with regulation and statutory guidance are properly understood, and form a key consideration in any decision making process.

7.6. The Council's constitution has clearly defined roles and responsibilities for treasury management responsibilities, both for members, committees, and officers.

8. Investment Indicators

8.1. The Authority has set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions.

8.2. **Total risk exposure:** The first indicator shows the Authority's total exposure to potential investment losses.

8.3. *Table 5: Total investment exposure in £ millions*

Total investment exposure	31.03.2018 Actual	31.03.2019 Forecast	31.03.2020 Forecast
Treasury management investments	45.9	33.7	15.0
Service investments: Loans	9.0	8.6	8.3
Commercial investments: Property	66.9	66.9	66.9
TOTAL INVESTMENTS	121.8	109.2	90.2

8.4. **How investments are funded:** Government guidance is that these indicators should include how investments are funded. Since the Authority does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Authority's investments are funded by usable reserves and income received in advance of expenditure.

8.5. *Table 6: Investments funded by borrowing in £ millions*

Investments funded by borrowing	31.03.2018 Actual	31.03.2019 Forecast	31.03.2020 Forecast
Treasury management investments	0.0	0.0	0.0
Service investments:	5.9	6.1	6.4
Commercial investments: Property	43.8	47.3	51.6
TOTAL FUNDED BY BORROWING	49.7	53.4	58.0

8.6. **Rate of return received:** This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

8.7. *Table 7: Investment rate of return (net of all costs)*

Investments net rate of return	2017/18 Actual	2018/19 Forecast	2019/20 Forecast
Treasury management investments	0.25%	0.70%	1.00%
Service investments:	4.17%	4.17%	4.17%
Commercial investments: Property	0.72%	4.00%	4.00%
ALL INVESTMENTS	0.80%	3.00%	3.52%

9. Treasury Management Indicators

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

9.2. **Security:** The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating 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.

Credit risk indicator	Target
Portfolio average credit rating	*Above A-, score of 7 or lower*

9.3. **Liquidity:** The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling 3 month period, without additional borrowing.

Liquidity risk indicator	Target
Total cash available within 3 months	£10m

9.4. **Interest rate exposures:** This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	**Limit**
Upper limit on one-year revenue impact of a 1% rise in interest rates	£1m
Upper limit on one-year revenue impact of a 1% fall in interest rates	£1m

9.5. The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

9.6. **Maturity structure of borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	**Upper limit**	**Lower limit**
Under 12 months	50%*	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	40%	0%
10 years and within 20 years	40%	0%
20 years and within 30 years	40%	0%
30 years and within 40 years	50%	0%
40 years and within 50 years	50%	0%
50 years an above	40%	0%

*this has been revised from the previous year when the corresponding figure was 60%

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

9.8. **Total short term borrowing:** the Council has used short term borrowing (under 1 year in duration) from other local authorities extensively in recent years, as an alternative to longer term borrowing from PWLB, due to the lower interest rates, and corresponding revenue savings. Short term borrowing exposes the Council to refinancing risk: the risk that interest rates rise quickly over a short period of time, and are at significantly higher rates when loans mature and new borrowing has to be raised. With this in mind, the Authority will set a limit on the total amount of short term local authority borrowing, as a proportion of all borrowing.

Short term borrowing	**Limit**
Upper limit on short term borrowing from other local authorities as a percentage of total borrowing	30%

9.9. **Principal sums invested for periods longer than a year:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2019/20	2020/21	2021/22
Limit on principal invested beyond year end	£10m	£10m	£10m

10. **Minimum Revenue Provision Policy Statement**

10.1. 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

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

10.3. 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.

10.4. 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.

10.5. 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

10.6. 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.

10.7. 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.

10.8. 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.

10.9. 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

10.10. MRP in relation to concession agreements (e.g. PFI contracts) and finance leases are 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.

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

Finance Leases

10.12. 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

10.13. 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.

10.14. 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.

11. Related Matters

11.1. The CIPFA Code requires the Authority to include the following in its treasury management strategy.

11.2. **Financial Derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

11.3. The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. 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.

11.4. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

11.5. **Housing Revenue Account:** On 1st April 2012, the Authority notionally split each of its existing long-term loans into General Fund and HRA pools. From 2012 going forwards, new long-term loans borrowed have been, and 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 Authority's average interest rate on investments.

11.6. **Markets in Financial Instruments Directive**: The Authority has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, this is the most appropriate status.

12. Financial Implications

12.1. The budget for investment income in 2019/20 is £0.25 million, based on an average investment portfolio of £25 million at an interest rate of 1.0%. The budget for debt interest paid in 2019/20 is £17.4 million (£6.8 General Fund, £10.6m HRA), based on an average debt portfolio of £538.5 million at an average interest rate of 3.23%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

13. Other Options Considered

13.1. The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Finance (S151 Officer) having consulted the Cabinet Member for Finance, 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 A – Arlingclose Economic & Interest Rate Forecast December 2018

Underlying assumptions:

- Our central interest rate forecasts are predicated on there being a transitionary period following the UK's official exit from the EU.

- The MPC has a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. We believe that MPC members consider that: 1) tight labour markets will prompt inflationary pressure in the future, 2) ultra-low interest rates result in other economic problems, and 3) higher Bank Rate will be a more effective policy weapon if downside risks to growth crystallise.

- Both our projected outlook and the increase in the magnitude of political and economic risks facing the UK economy means we maintain the significant downside risks to our forecasts, despite the potential for slightly stronger growth next year as business investment rebounds should the EU Withdrawal Agreement be approved. The potential for severe economic outcomes has increased following the poor reception of the Withdrawal Agreement by MPs. We expect the Bank of England to hold at or reduce interest rates from current levels if Brexit risks materialise.

- The UK economic environment is relatively soft, despite seemingly strong labour market data. GDP growth recovered somewhat in the middle quarters of 2018, but more recent data suggests the economy slowed markedly in Q4. Our view is that the UK economy still faces a challenging outlook as the country exits the European Union and Eurozone economic growth softens.

- Cost pressures are easing but inflation is forecast to remain above the Bank's 2% target through most of the forecast period. Lower oil prices have reduced inflationary pressure, but the tight labour market and decline in the value of sterling means inflation may remain above target for longer than expected.

- Global economic growth is slowing. Despite slower growth, the European Central Bank is conditioning markets for the end of QE, the timing of the first rate hike (2019) and their path thereafter. More recent US data has placed pressure on the Federal Reserve to reduce the pace of monetary tightening – previous hikes and heightened expectations will, however, slow economic growth.

- Central bank actions and geopolitical risks have and will continue to produce significant volatility in financial markets, including bond markets.

Forecast:

- The MPC has maintained expectations of a slow rise in interest rates over the forecast horizon, but recent events around Brexit have dampened interest rate expectations. Our central case is for Bank Rate to rise twice in 2019, after the UK exits the EU. The risks are weighted to the downside.

- Gilt yields have remained at low levels. We expect some upward movement from current levels based on our central case that the UK will enter a transitionary period following its EU exit in March 2019. However, our projected weak economic outlook and volatility arising from both economic and political events will continue to offer borrowing opportunities.

	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.17**
Arlingclose Central Case	**0.75**	**0.75**	**1.00**	**1.00**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.13**
Downside risk	0.00	-0.50	-0.75	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	**-0.85**
3-mth money market rate														
Upside risk	0.10	0.10	0.10	0.10	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	**0.17**
Arlingclose Central Case	**0.90**	**0.95**	**1.10**	**1.30**	**1.40**	**1.40**	**1.40**	**1.35**	**1.35**	**1.35**	**1.35**	**1.35**	**1.35**	**1.27**
Downside risk	-0.20	-0.45	-0.60	-0.80	-0.90	-0.90	-0.90	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	**-0.76**
1-yr money market rate														
Upside risk	0.20	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	**0.33**
Arlingclose Central Case	**1.15**	**1.25**	**1.35**	**1.50**	**1.70**	**1.60**	**1.50**	**1.40**	**1.35**	**1.35**	**1.35**	**1.35**	**1.35**	**1.40**
Downside risk	-0.35	-0.50	-0.60	-0.80	-0.90	-0.90	-0.90	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	**-0.77**
5-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.37**
Arlingclose Central Case	**1.15**	**1.25**	**1.35**	**1.50**	**1.50**	**1.40**	**1.35**	**1.35**	**1.30**	**1.30**	**1.30**	**1.30**	**1.30**	**1.33**
Downside risk	-0.50	-0.60	-0.65	-0.80	-0.80	-0.70	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	**-0.66**
10-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.37**
Arlingclose Central Case	**1.50**	**1.65**	**1.70**	**1.80**	**1.80**	**1.75**	**1.75**	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**
Downside risk	-0.55	-0.70	-0.70	-0.80	-0.80	-0.75	-0.75	-0.70	-0.70	-0.70	-0.70	-0.70	-0.70	**-0.71**
20-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.37**
Arlingclose Central Case	**2.00**	**2.10**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.18**
Downside risk	-0.60	-0.70	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**
50-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.37**
Arlingclose Central Case	**1.90**	**1.95**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**1.99**
Downside risk	-0.60	-0.70	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%

PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

LONDON BOROUGH OF HARINGEY

Audit Progress Report

23 January 2019

INTRODUCTION

Background

This report is intended to provide the Corporate Committee with an outline of our progress against our proposed work for 2018/19 and an update on outstanding work to be completed in relation to 2017/18 where applicable.

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

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

- to be satisfied that the accounts present a true and fair view
- to be satisfied that the organisation has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources

Non-Code and other assurance work

- certification assurance on the housing benefit subsidy claim
- certification assurance for the teachers pension return
- certification assurance for the pooled housing capital receipts return.

Tracking progress

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

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

Progress to date

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

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

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

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AUDIT PROGRESS 2018/19

AUDIT AREA	SCOPE	PROGRESS	REPORTS / OUTPUTS	RAG
PLANNING				
Planning letter	We are required to provide you with a planning letter setting out the scope of the audit for the year and the proposed fees set by Public Sector Audit Appointments Limited (PSAA).	We issued our planning letter and the proposed fees for the Code audit are £158,986.	**Planning Letter** Issued April 2018.	G
Audit plan	We are required to report to you the results of our detailed audit planning and the proposed audit response to significant audit risks ahead of commencement of the audit work.	We will agree our audit plan with management and report to the Corporate Committee on 26 March 2019.	**Audit Plan** Reporting to the Corporate Committee on 26 March 2019.	G
FINANCIAL STATEMENTS				
Financial systems audit	Audit of the significant financial systems that support the financial statements to be completed before draft accounts are prepared.	We are in the process of reviewing and testing the operating effectiveness of internal controls operated by the Council.	**Significant deficiencies in internal controls** We identified that the SAP general ledger system does not enforce segregation within the system on posting of journal entries over £50,000 per Council policy. We will discuss the progress made in respect of strengthening this control with management and consider whether it is a significant risk to our audit plan. No other significant deficiencies in internal controls have been identified through our audit work to date. All other observations on internal controls will be reported in our Audit Completion Report to the July 2019 Corporate Committee meeting.	A

AUDIT PROGRESS 2018/19

AUDIT AREA	SCOPE	PROGRESS	REPORTS / OUTPUTS	RAG
FINANCIAL STATEMENTS (continued)				
Interim visit	In order to comply with the early close down of the accounts and earlier audit report deadline we will conduct an audit of month 9 transactions with a view to reducing the amount of detailed audit work to be completed during the condensed final audit visit during June and July.	Management has agreed to provide these month 9 financial statements along with corresponding evidence/working papers to support the figures towards the end of January 2019 so that we are able to carry out an interim audit visit in February and March 2019.	We will provide an update at the March Corporate Committee as to the progress and success of this interim visit together with any significant findings.	**TBC** 26 March 2019
Final audit visit	Audit of the draft financial statements to determine whether these give a true and fair view and have been prepared in accordance with the CIPFA's Code of Practice.	Final audit testing of the financial statements will commence upon receipt of the draft financial statements, and on site at the Council from 3 June 2019.	**Audit Completion Report** The findings of our audit on the financial statements will be reported to the Corporate Committee in July. **Auditor's report** The opinion on the financial statements will be included in the auditor's report and issued following the Corporate Committee's approval of the financial statements.	**TBC** July 2019 **Deadline** 31 July 2019
Whole of Government Account (WGA) schedules audit	We are required to provide an opinion whether the Council's WGA consolidation pack is consistent with the financial statements.	Review to be undertaken during the financial statements audit at the final audit visit.	**Opinion on the WGA consolidation schedules** The opinion on the consistency of the consolidation pack will be issued following the Corporate Committee's approval of the financial statements.	**TBC** **Deadline** 31 August 2019

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AUDIT PROGRESS 2018/19

AUDIT AREA	SCOPE	PROGRESS	REPORTS / OUTPUTS	RAG
USE OF RESOURCES				
Review of arrangements to secure economy, efficiency and effectiveness	We are required to be satisfied that the organisation has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.	Initial review of the Council's arrangements for financial planning will be undertaken before we issue our audit plan. Detailed review to commence from June 2019.	**Audit Completion Report** The findings of our review of use of resources will be reported to the Corporate Committee in July 2019. **Auditor's report** The conclusion on use of resources will be included in the auditor's report and will be issued following the Corporate Committee's approval of the financial statements.	**TBC** July 2019 **Deadline** 31 July 2019
GRANTS AND RETURNS				
Review of the Housing Benefit Subsidy claim	To review and submit the Housing Benefit Subsidy grant claim in accordance with the PSAA HBCOUNT arrangements.	**2017/18 update** We submitted our report on the housing benefit subsidy claim to DWP on 19 December 2018. While there remain a large number of errors in testing of benefits awarded, we have noted some improvements from last year and the extrapolation of the potential errors as a result of local authority errors and administrative delays are lower than the previous year. **2018/19** Samples to be selected and tested on receipt of draft 2018/19 claim and claim breakdowns.	Detailed findings are included in our housing benefits certification report. Housing Benefit Subsidy grant claim to be reviewed and submitted by 30 November 2019 deadline.	A **TBC**

AUDIT PROGRESS 2018/19

AUDIT AREA	SCOPE	PROGRESS	REPORTS / OUTPUTS	RAG
GRANTS AND RETURNS (continued)				
Review of the pooling of housing capital receipts return	We are required to carry out 'agreed upon procedures,' as set out by the Department for Communities and Local Government (DCLG) and a report in accordance with *International Standard on Related Services (ISRS) 4400: Engagements to Perform Agreed-Upon Procedures Regarding Financial Information* on the quarterly Pooling of Housing Capital Receipts return entered onto DELTA system.	**2017/18 update** Our work in respect of the 2017/18 is still in progress as we are awaiting information from the Council to complete the review. **2018/19** Review to commence in September/October 2019.	We will certify the return as soon as the remaining audit work in respect of new-build expenditure has been completed. Deadline for the 31 March 2019 audit certification is yet to be finalised by DCLG.	A **TBC**
Review of the teachers' pensions return	We are required to carry out 'agreed upon procedures,' as set out by Teachers' Pensions, and a report in accordance with *International Standard on Related Services (ISRS) 4400: Engagements to Perform Agreed-Upon Procedures Regarding Financial Information.*	**2017/18 update** Our work in respect of the 2017/18 is still in progress as we are awaiting information from the Council to complete the review. **2018/19** Review to commence in September/October 2019.	We will certify the return as soon as the remaining audit work is complete. Deadline for the 31 March 2019 audit certification is yet to be finalised by Teachers' Pensions.	A **TBC**
Grants report	Summary of our certification work.	**2017/18 update** We will issue our report upon completion of the audit of the pooling of housing capital receipts return and teachers' pensions return. **2018/19** To be drafted after certification work has concluded.	**Grants Report** The key findings from our work will be reported to the Corporate Committee.	**Deadline** After completion of certification work

AUDIT PROGRESS 2018/19

AUDIT AREA	SCOPE	PROGRESS	REPORTS / OUTPUTS	RAG
OBJECTIONS				
Lender Option Borrower Option loans	Review the lawfulness of entering into LOBO borrowing.	Key findings and provisional view report shared with objectors and Statement of Reasons to be updated and issued as final.		**TBC**
Schools PFI contract	Review the lawfulness of entering into the PFI contact.	In progress.		**TBC**
Summons costs for non-payment of council tax	Review the lawfulness of the basis of estimating the costs for issuing summons for non-payment of council tax.	In progress.		**TBC**
Haringey Development Vehicle	Review the lawfulness of the proposal to proceed with the HDV joint venture.	Draft Statement of Reasons to be finalised.		**TBC**
Housing maintenance	Review whether Council is intentionally not maintaining their housing stock to sell them	To follow up on Council responses.		**TBC**
REPORTING				
Audit certificate	To certify the completion of the audit at the point that the auditor's responsibilities in respect of the audit of the period covered by the certificate have been discharged.	To be issued on completion of the audit of the financial statements and review of the arrangements to secure economy, efficiency and effectiveness.	**Audit certificate** The audit certificate to close the audit for the year will be included in the auditor's report.	Subject to clearance of objections
Annual audit letter	Public-facing summary of audit work and key conclusions for the year.	Annual audit letter to be drafted upon completion of audit work.	**Annual audit letter** The key findings from our audit will reported in the annual audit letter.	**Deadline** TBC

2017/18 AUDIT FEES

AREA	SCOPE	REASONS FOR OVERRUN	REPORTS / OUTPUTS	RAG
2017/18 FEE OVERRUN				
Scale fee overrun	The 2017/18 scale fee was varied by £20,084 increasing it from £206,475 to £226,559. Management and the PSAA agreed this.	We identified a number of errors in our testing of PPE, social care expenditure and Whole of Government Accounts (WGA), which required us to do further work to satisfy ourselves that there is no material misstatements in the financial statements. The errors identified were included as part of our audit completion report.	N/A	**N/A**

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

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LONDON BOROUGH OF HARINGEY

HOUSING BENEFITS SUBSIDY CERTIFICATION

For the year ended 31 March 2018

24 January 2019

BDO

INTRODUCTION

Purpose of the report

This report summarises the main issues arising from our certification of the housing benefits subsidy certification for the financial year ended 31 March 2018.

Public Sector Audit Appointments Ltd (PSAA) regime

PSAA has a statutory duty to make arrangements for certification by the appointed auditor of the annual housing benefit subsidy claim.

We undertake the grant claim certification as an agent of PSAA, in accordance with the Certification Instruction (CI) issued by them after consultation with the Department for Work and Pensions (DWP).

After completion of the tests contained within the CI the grant claim can be certified with or without amendment or, where the correct figure cannot be determined, may be qualified as a result of the testing completed.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during our certification work.

Fees

We reported our planned fees in our Audit Plan.

The indicative fee of £33,190 was set by PSAA based on the 2015/16 fee. The fee for 2016/17 was £38,223 and we agreed that the planned fee for 2017/18 would remain at £38,223.

	PLANNED FEES (£)	FINAL FEES (£)
Housing benefits subsidy claim	38,223	38,223

KEY FINDINGS

CLAIM OR RETURN	VALUE	QUALIFIED	AMENDED	IMPACT OF AMENDMENTS
Housing benefit subsidy	£251,224,361	YES	YES	£3,490 reduced subsidy But likely to be further amended by DWP based on extrapolation errors as noted below

HOUSING BENEFIT SUBSIDY

Local authorities responsible for managing housing benefit are able to claim subsidies towards the cost of these benefits from central government. The final value of subsidy to be claimed by the Council for the financial year is submitted on form MPF720A, which is subject to certification.

Our work on this claim includes verifying that the Council is using the correct version of its benefits software and that this software has been updated with the correct parameters. We also agree the entries in the claim to underlying records and test a sample of cases from each benefit type to confirm that benefit has been awarded in accordance with the relevant legislation and is shown in the correct cell on form MPF720A.

The methodology and sample sizes are prescribed by PSAA and DWP. We have no discretion over how this methodology is applied.

The draft subsidy return provided for audit has claimed subsidy of £251,227,851. The final claim was reduced by £3,490 to £251,224,361.

FINDINGS AND IMPACT ON RETURN

In recent years, we have reported on a significant number of errors found in our testing of benefits awarded to claimants and a concern that a large backlog of claims and claimant notified change in circumstances was resulting in a high number of overpayments arising from administrative delays.

Reducing the backlog of claims

We were pleased to note that the Council has taken action and obtained external support to clear many of the backlog cases and claimant changes in circumstances that often led to significant amounts of overpayments created due to delays in processing claims and amendments.

The housing benefits subsidy process provides an allowance each year to allow local authorities to recover, through DWP subsidy, any overpayments resulting from local authority errors and administrative delays. However, this allowance is designed to encourage local authorities to minimise such errors and it is capped to provide subsidy in full for these overpayments where the total does not exceed 0.48% of total benefits, provides for subsidy at only 40% where these overpayments do not exceed 0.54% of total benefits, and penalises local authorities by not providing any subsidy for these overpayments where exceeding 0.54% of total benefits.

As a result of clearing a large part of the backlog in 2017/18, the Council has created a higher than usual number and value of overpayments arising from local authority errors and administrative delays, and this has resulted in total value exceeding the 0.54% maximum error allowance to recover these through subsidy. The Council has therefore not been able to recover any amounts for the £1.445 million local authority error and administrative delay overpayments in 2017/18. In recent years, the Council has been able to recover 40% of these errors where the total errors fell between the 0.48% and 0.54% thresholds. Ideally, the Council should seek to minimise such errors so that these fall below the 0.48% threshold to be able to recover these amounts in full through subsidy from DWP.

We have discussed with management the current position (to 14 January 2019) and whether the Council has benefited in the current year from the clearance of a large part of the backlog in the previous year. This suggests that the overpayments total to date of £577,504 are only 0.30% of benefits awarded and should be recoverable in full this year. However, this is subject to continued good performance for the remainder of the year, year end validation by the Benefits team of overpayments, and testing of the accuracy of benefit assessments and classification of overpayments through the audit process.

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KEY FINDINGS

HOUSING BENEFIT SUBSIDY	FINDINGS AND IMPACT ON RETURN

Audit approach and scope of testing

The certification process requires that we test an initial 60 benefit cases in full across non-HRA rent rebates, HRA rent rebates and private tenancy rent allowances. Where we identify errors in any of these cases, and for all error types found in the prior year, we then test a further 40 cases with similar characteristics to the identified error to estimate through extrapolation the impact on the amount of subsidy claimed.

This year, this resulted in 29 separate error types where an additional 40 cases were tested or, for small populations, where all cases were tested. Where we were able to isolate the error, the Council was able to make corrections as noted in the following pages.

However, for extrapolated errors where the estimates may be based on cases that are not representative of the underlying error rate, no amendments have been made to the subsidy claimed and we have reported these as potential errors to DWP. In most years, DWP will write to the Council to state that it is minded to make these adjustments to the final subsidy determination unless the Council is able to provide evidence that more accurately reflects the underlying error rates.

We have estimated that the impact of the extrapolated errors could results in DWP withholding approximately (£458,000) of subsidy. The areas subject to greatest loss of subsidy arise from potential misclassification of eligible overpayments that should be local authority error and administrative delays, and overpayment of benefit where an incorrect rent amount had been used in the assessment. The Council has written to DWP to state that it intends to undertake additional testing in these areas to identify a more accurate underlying error rate. We await a response from DWP to this request and any additional audit work required.

Impact on additional mandated testing in 2018/19

In 2016/17, there were 25 blocks of additional 40 cases (or 100% testing of small populations) resulting from errors that year that resulted in mandated additional testing in 2017/18. For three of these blocks we found no errors in 2017/18 and these can be removed from the mandated 2018/19 additional testing (Non-HRA working tax credit, HRA disability living allowances and HRA non-dependant deductions). However, there were three additional areas with errors in 2017/18 (non-HRA local authority overpayments, rent allowances tenancy start dates, and HRA backdated benefits) that will result in mandated additional testing in 2018/19.

Overall, the 2018/19 certification work will again require 25 block of 40 cases (or 100% testing) as mandated additional testing.

A summary of the issues can be found on the following pages.

KEY FINDINGS

BENEFIT TYPE	ERRORS	IMPACT
Earned income assessments	Non-HRA: We found 3 cases in the initial sample and 2 cases in the additional cases tested with errors in calculations. 2 cases resulted in overpaid benefits and 3 cases that had underpaid benefit that could have been offset against other overpayments. The extrapolated net underpayment error is £2,964.	Extrapolation of earned income errors suggests that subsidy may be over claimed by (£30,685) for the current year although subsidy loss through prior year overpayments could be reduced by £103,915.
	HRA: We found 2 cases in the initial sample and 5 cases in the additional cases tested with errors in calculations. 2 cases resulted in overpaid benefits and 3 cases that had underpaid benefit that could have been offset against other overpayments. The extrapolated net underpayment error is £56,799 in the current year and £173,192 overstatement of errors in the prior year.	The net increase in subsidy would be +£73,230.
	Rent allowances: We found 4 cases in the additional cases tested with errors in calculations. 2 cases resulted in overpaid benefits and the extrapolated overpayment error is £85,479.	
Self-employed income assessments	Non-HRA: We found 2 cases in the initial testing and 10 cases in the additional cases tested with errors in calculations. 7 cases resulted in overpaid benefits and 2 cases that had underpaid benefit that could have been offset against other overpayments. The extrapolated net overpayment error is £2,593.	Extrapolation of self-employed income errors suggests that subsidy may be over claimed by (£2,806).
	HRA: We found 11 cases in the additional cases tested with errors in calculations. 6 cases resulted in overpaid benefits and 2 cases that had underpaid benefit that could have been offset against other overpayments. The extrapolated net underpayment error is £1,588.	
	Rent allowances: We found 6 cases in the additional cases tested with errors in calculations. All 6 cases resulted in overpaid benefits and 2 of these cases also had underpaid benefit that could have been offset against other overpayments. The extrapolated net overpayment error is £590 in the current year and £590 overstatement of errors in the prior year.	

KEY FINDINGS

BENEFIT TYPE	ERRORS	IMPACT
Child care costs	Non-HRA: We found 7 cases in the additional cases tested with errors in the calculations. 3 cases resulted in overpaid benefits and 4 cases that had underpaid benefit that could have been offset against other overpayments. The extrapolated net overpayment error is £5,819 in the current year and £1,883 overstatement of errors in the prior year. HRA: We found 5 cases in the additional cases tested with errors in the calculations. 3 cases resulted in overpaid benefits and 1 case that had underpaid benefit that could have been offset against other overpayments. The extrapolated net overpayment error is £37,592.	Extrapolation of child care costs errors suggests that subsidy may be over claimed by (£44,092) for the current year although subsidy loss through prior year overpayments could be reduced by £1,129. The net decrease in subsidy would be (£42,963).
State pensions income	HRA: We found 13 cases in the additional cases tested with errors in the calculations. 3 cases resulted in overpaid benefits and 5 cases that had underpaid benefit that could have been offset against other overpayments. The extrapolated net overpayment error is £4,422 in the current year and £1,273 overstatement of errors in the prior year. Rent allowances: We found 9 cases in the additional cases tested with errors in the calculations. 3 cases resulted in overpaid benefits and 2 cases that had underpaid benefit that could have been offset against other overpayments. The extrapolated net overpayment error is £1,076 in the current year and £3,765 overstatement of errors in the prior year.	Extrapolation of state pension errors suggests that subsidy may be over claimed by (£5,921) for the current year although subsidy loss through prior year overpayments could be reduced by £3,145. The net decrease in subsidy would be (£2,775).
Occupational pensions income	HRA: We found 2 cases in the additional cases tested with errors in the calculations. 1 case resulted in overpaid benefits and 1 case that had underpaid benefit that could have been offset against other overpayments. The extrapolated net underpayment error is £743. Rent allowances: We found 7 cases in the additional cases tested with errors in the calculations. 3 cases resulted in overpaid benefits and 2 cases that had underpaid benefit that could have been offset against other overpayments. The extrapolated net overpayment error is £2,374.	Extrapolation of occupational pension errors suggests that subsidy may be over claimed by (£1,768).

KEY FINDINGS

BENEFIT TYPE	ERRORS	IMPACT
Working tax credits	Non-HRA: No errors were found this year and this will allow us to remove this area from the mandated additional testing in 2018/19 if no errors are identified from the initial testing. Rent allowances: We found 2 cases in the additional cases tested with errors in calculations. 1 case resulted in overpaid benefits and 1 case that had underpaid benefit that could have been offset against other overpayments. As the net error was below £1 we did not report an extrapolated error.	No impact.
Classification of eligible overpayments	Non-HRA: We found 3 cases in the additional cases tested where the eligible overpayment was misclassified. The extrapolated misclassified amount is £43,438. HRA: We found no errors in the classification of eligible overpayments but 1 case that was calculated incorrectly. The extrapolated overstated overpayments amount is £1,332. Rent allowances: We found 3 cases in the current year and 2 cases in the prior year from the additional cases tested where the eligible overpayment was misclassified. The extrapolated misclassified amount is £424,044 in the current year and £155,195 in the prior year.	Extrapolation of eligible overpayment errors suggests that subsidy may be over claimed by (£86,194) for the current year and (£62,042) for the prior year. The decrease in subsidy would be (£248,194).
Classification of technical overpayments	Non-HRA: We found 1 case in the initial sample and 3 cases in the additional cases tested where the technical overpayment was misclassified. The extrapolated misclassified amount is £17,684.	Extrapolation of technical overpayment errors suggests that subsidy may be under claimed by +£10,176.
Classification of local authority overpayments (additional error type for non-HRA in 2017/18)	Non-HRA: We found 1 case in the initial sample and 9 cases in the additional cases tested where the local authority overpayment was misclassified. The extrapolated misclassified amount is £12,272. Rent allowances: We found 1 case in the initial sample and 3 cases in the additional cases tested where the local authority overpayment was misclassified or miscalculated. The extrapolated misclassified amount is £58,300 and the overstated overpayments amount is £27,854	Extrapolation of local authority overpayment errors suggests that subsidy may be under claimed by +£52,656.
Rental start dates (new error type 2017/18)	Rent allowances: We found 1 case in the initial testing and 4 cases in the additional testing with an incorrect start date of the tenancy used in the assessment. 2 cases resulted in overpaid benefits and the extrapolated overpayment error is £47,990.	Extrapolation of rent start date errors suggests that subsidy may be over claimed by (£47,990).

KEY FINDINGS

BENEFIT TYPE	ERRORS	IMPACT
Rent amounts	Non-HRA: We found 1 case in the initial testing with an incorrect rental amount but no errors in the additional cases tested. This case resulted in overpaid benefit of £2,080. We classified this as an isolated error and did not extrapolate this.	Extrapolation of rent errors suggests that subsidy may be over claimed by (£245,522) along with the (£2,080) isolated error.
	Rent allowances: We found 1 case in the initial testing and 1 case in the additional testing with an incorrect rental amount. 1 case resulted in overpaid benefits and the extrapolated overpayment error is £245,522.	The decrease in subsidy would be (£247,602).
Disability living allowance	HRA: No errors were found this year and this will allow us to remove this area from the mandated additional testing in 2018/19 if no errors are identified from the initial testing.	No impact.
Non-dependant deductions	HRA: No errors were found this year and this will allow us to remove this area from the mandated additional testing in 2018/19 if no errors are identified from the initial testing.	No impact.
Severe disability premium	Rent allowances: All 81 cases in receipt of severe disability premium were tested and found two errors resulting in overpaid benefits. The claim was amended to reduce the amount claimed by £853.	No impact as claim was amended.
Backdated benefits (new error type 2017/18)	HRA: We found 1 case in the initial testing where the backdating was not required as there was an valid claim for the period. All 91 cases were tested with 40 found to have been incorrectly included as backdated benefits or with calculation errors. As all cases were tested, the claim was amended to reduce backdated claims by £20,822 and by £2,923 for overpaid benefits.	No impact as claim was amended.
Modified schemes	Testing of all modified scheme benefits found small value errors in most of the cases (6 out of 7 HRA and 5 out of 8 rent allowance cases). These errors were all amended in the claim.	No impact as claim was amended.

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