



NOTICE OF MEETING

Governance & Audit Committee

Wednesday 28 January 2015, 7.30 pm

Council Chamber, Fourth Floor, Easthampstead House, Bracknell

To: Governance & Audit Committee

Councillor Heydon (Chairman), Councillor Allen (Vice-Chairman), Councillors Blatchford, Ms Brown, McCracken, Thompson, Ward and Worrall

Independent Member

Gordon Anderson

cc: Substitute Members of the Committee

Councillors Birch, Mrs Hayes, Leake, Mrs McCracken, Mrs Temperton and Wade

ALISON SANDERS
Director of Corporate Services

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If you require further information, please contact: Katharine Simpson
Telephone: 01344 352308
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Published: 27 January 2015



Governance & Audit Committee
Wednesday 28 January 2015, 7.30 pm
Council Chamber, Fourth Floor, Easthampstead House,
Bracknell

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AGENDA

Page No

1. Apologies for Absence

To receive apologies for absence and to note the attendance of any substitute members.

2. Declarations of Interest

Members are requested to declare any disclosable pecuniary or affected interest in respect of any matter to be considered at this meeting.

Any Member with a Disclosable Pecuniary Interest or an affected interest in a matter should withdraw from the meeting when the matter is under consideration and should notify the Democratic Services Officer in attendance that they are withdrawing as they have such an interest. If the Disclosable Pecuniary Interest is not entered on the register of Members interests the Monitoring Officer must be notified of the interest within 28 days.

3. Minutes - 24 September 2014

To approve as a correct record the minutes of the meetings of the Committee held on 24 September 2014.

1 - 4

4. Urgent Items of Business

Any other items which, pursuant to Section 100B(4)(b) of the Local Government Act 1972, the Chairman decides are urgent.

5. External Audit Matters

To receive an update from the Council's External Auditors on a variety of audit matters.

6. Grant Claims and Returns

To receive an update on the outcomes of the annual audit of Bracknell Forest Council's grant claims and returns

7. Annual Audit Letter	To receive the external auditor's Annual Audit Letter for 2013/14.	5 - 18
8. Amendments to the Constitution: Health Overview and Scrutiny	To consider a report recommending changes to the Constitution arising from new regulations and Department of Health Guidance under the Health and Social Care Act 2012.	19 - 24
9. Treasury Management Report	To consider a report seeking comment on the Council's Treasury Management Report before it is submitted to Council for approval.	25 - 52
10. Sealing of Deeds	To consider a report seeking endorsement of to a proposed change to the provision of the Council's Constitution which relates to the execution of deeds on behalf of the Council.	53 - 56
11. Delegated Powers for Community Infrastructure Levy	To consider a report seeking the views of the Committee as to those delegations of powers which should be made to officers in order for the Council to operate the Community Infrastructure Levy regime.	57 - 60
12. Internal Audit Assurance	To consider a report providing a summary of Internal Audit activity during the period April to December 2014.	61 - 90
13. Exclusion of Public and Press	To consider the following motion: That pursuant to Section 100A of the Local Government Act 1972, as amended, and having regard to the public interest, members of the public and press be excluded from the meeting for the consideration of item 14 which involves the likely disclosure of exempt information under the following category of Schedule 12A of that Act: (3) Information relating to the financial or business affairs of any particular person.	
14. Strategic Risk Management Update	To receive a report providing an update on the current key corporate risks to the achievement of the Council's objectives and to see the Committee's comments on the updated Strategic Risk Register.	91 - 98

Date of Next Meeting

The next scheduled meeting of the Governance and Audit Committee will take place on Wednesday 25 March 2015 at 7.30pm



**GOVERNANCE & AUDIT COMMITTEE
24 SEPTEMBER 2014
7.30 - 8.30 PM**

Bracknell Forest Borough Council:

Councillors Heydon (Chairman), Allen (Vice-Chairman), Blatchford, Ms Brown, McCracken, Thompson, Ward and Worrall

Also Present:

Andrew Brittain, Ernst & Young
Helen Thompson, Ernst & Young

Apologies for absence were received from:

Gordon Anderson

15. Declarations of Interest

There were no declarations of interest.

16. Minutes - 14 July 2014

RESOLVED that the minutes of the Governance and Audit meeting of the Panel held on 14July 2014 be approved as a correct record and signed by the Chairman.

Matters Arising

Further to Minute 12 of the last meeting, the Committee was informed that the draft Annual Governance Statement had been submitted to the External Auditors who had made the following comments:

- Contrary to the draft Statement, Performance Indicators were no longer externally audited.
- It would be appropriate to add a paragraph about governance arrangements for the Town Centre redevelopment.

RESOLVED that the Borough Solicitor be authorised to amend the draft Annual Governance Statement in line with the External Auditors' comments prior to resubmission.

17. Urgent Items of Business

There were no urgent items of business.

18. External Auditors Audit Results

The Audit Director introduced the Annual Audit Results Report 2013/14which summarised the work undertaken to discharge the external auditor's statutory audit responsibilities

It was reported that the report contained no qualifications or uncorrected errors and that it was proposed to issue an unqualified opinion on both financial statements and value for money.

Two significant risks had been identified; the town centre redevelopment and the Better Care Fund and both would be monitored during 2014/15.

In response to a member's question, the Audit Director reported that the reason for the proposed final fee for non-audit work in 2013/14 being significantly higher than the planned fee was due to being requested to carry out additional work on the Berkshire Waste PFI after the planned fee had been calculated. Further work on this matter would be undertaken in 2014/15.

RESOLVED that:

- i. the Audit Results Report 2013/14 be noted
- ii. the Committee's thanks be given to all officers involved with the preparation of the Financial Statements

19. **Financial Statements 2013/14**

The Chief Accountant presented the Statement of Accounts 2013/14 which had been subjected to audit by Ernst and Young. The report summarised the key elements within the accounts.

It was reported that this was the sixteenth consecutive year that the Council had spent within its budget. Taking in to account the underspend the Council actually withdrew £3.169million from the General Fund balances. The General Fund Balance stood, on 31 March 2014, at £9.813million and the 2014/15 budget included plans to spend £2.624million of this reserve.

The Committee was informed that a project was underway to look at the ways in which the accounts could be simplified. There was also a consultation on reducing the timescales for the production of the accounts. However it was unlikely that either exercise would lead to changes in the short term.

RESOLVED that:

- i. The Financial Statements 2013/14, attached as Annex A to the Borough Treasurer's report, be approved.
- ii. The out-turn expenditure for the year be noted and that the provisions (£5.201million as detailed in Section 5.3 of the Borough Treasurer's report) and earmarked reserves (£18.585million as detailed in section 5.4 of the Borough Treasurer's report) be approved.
- iii. The Chairman of the Governance and Audit Committee be authorised to sign and date the Statement of Accounts on behalf of the Committee.
- iv. The Chairman of the Governance and Audit Committee be authorised to sign and date the Letter of Representation set out in Appendix B of the Audit Results report.

20. Housing Benefits and Subsidy Claim Update

The Chief Officer: Housing gave a presentation and answered members' questions on Housing Benefits, Subsidies and the audit process.

He reported that the Council's total spend on housing benefit rent allowance was £32,568,615 and that 35,376 separate transactions were processed in 2013/14.

The Committee thanked the Chief Officer for his informative presentation.

21. Openness of Local Government Bodies Regulations 2014

The Committee considered a report on the Openness of Local Government Bodies Regulations 2014 together with recommendations to secure, so far as was reasonably practical, the implementation of these Regulations.

RESOLVED that

- i. The Council's Protocol for Photography, Audio/Visual Recordings and the Use of Social Media at Council and Committee Meetings be rescinded.
- ii. The Director of Corporate Services be authorised to issue guidance to persons wishing to exercise the right to record Council meetings, such guidance to incorporate those provisions of the current Protocol which are not inconsistent with the regulations.
- iii. The Regulations be implemented as proposed in paragraph 5.12 of the report.

22. Date of Next Meeting

The Committee noted that its next meeting would be held on 28 January 2015 at 7.30pm.

CHAIRMAN

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**TO: GOVERNANCE & AUDIT COMMITTEE
16 DECEMBER 2014**

**ANNUAL AUDIT LETTER 2013/14
Chief Executive/Borough Treasurer**

1 PURPOSE OF REPORT

- 1.1 To receive the external auditor's Annual Audit Letter for 2013/14, which has previously been circulated to all Members.

2 RECOMMENDATION

- 2.1 That the Governance and Audit Committee note the Annual Audit Letter 2013/14 at Appendix 1.**

3 REASONS FOR RECOMMENDATION

- 3.1 The Annual Audit Letter must be considered in public by those charged with governance. In Bracknell Forest this is the Governance and Audit Committee. However, given the Executive's overall responsibilities it is important that it also receives the report.

4 ALTERNATIVE OPTIONS CONSIDERED

- 4.1 None

5 SUPPORTING INFORMATION

- 5.1 The external auditor (Ernst & Young) is required to provide the Council with an Annual Audit Letter (set out at Appendix 1). The letter summarises the findings from the 2013/14 audit, which comprises two elements:

- the audit of the financial statements; and
- the external auditor's assessment of the Council's arrangements to achieve value for money in the use of resources.

- 5.2 The external auditor has given an unqualified opinion on the Council's financial statements. An unqualified conclusion has also been given on the Council's arrangements for securing value for money. There are no specific recommendations within the report that the Council is required to address. The two key findings on financial resilience and the Better Care Fund will be managed through the Council's service and financial planning processes.

- 5.3 The external auditor, Helen Thompson, will attend the meeting of the Governance and Audit Committee to present the Annual Audit Letter 2013/14.

6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

- 6.1 Nothing to add to the report.

Borough Treasurer

- 6.2 Nothing to add to the report.

Equalities Impact Assessment

- 6.3 There are no specific issues arising directly from this report.

Strategic Risk Management Issues

- 6.4 The Annual Audit Letter identifies the strategic financial risks facing the Council which are addressed through the Strategic Risk Register, Service Plans and the Council's financial planning process.

7 CONSULTATION

Not applicable

Background Papers

None

Contact for further information

Alan Nash, Borough Treasurer – 01344 352180

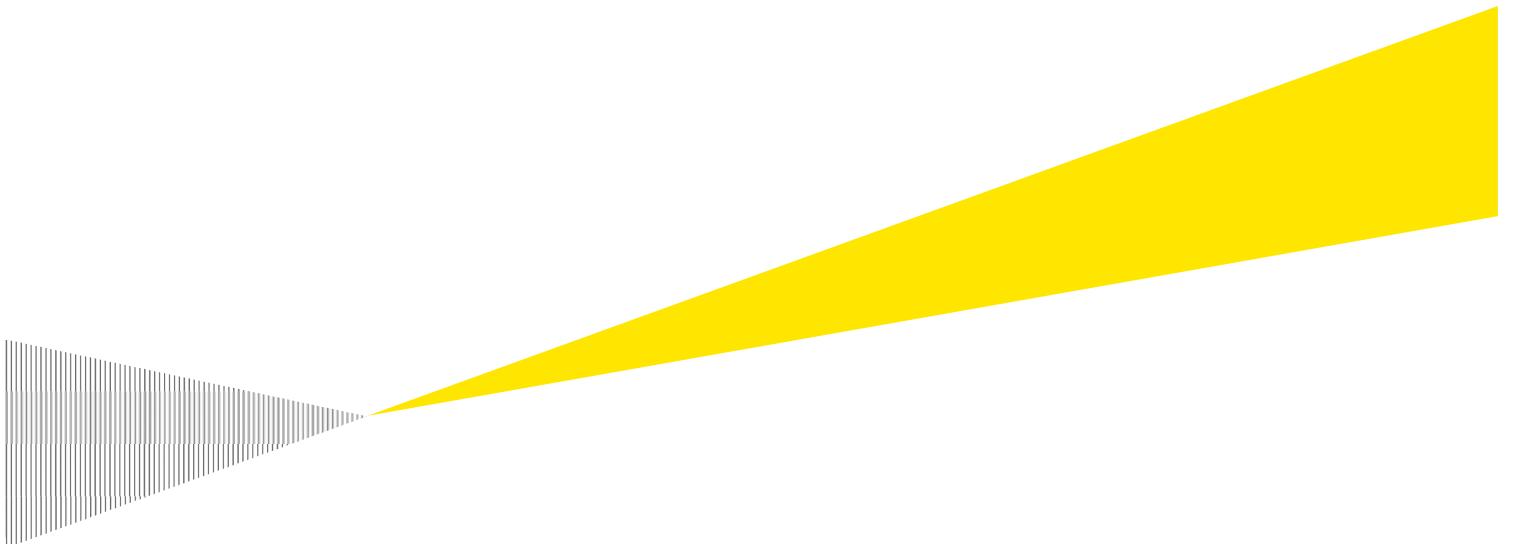
alan.nash@bracknell-forest.gov.uk

Bracknell Forest Council

Year ending 31 March 2014

Annual Audit Letter

October 2014



Building a better
working world

The Members of Bracknell Forest Council
Easthampstead House
Town Square
Bracknell
Berkshire
RG12 1AQ

21 October 2014

Dear Members,

Annual Audit Letter

The purpose of this Annual Audit Letter is to communicate to the Members of Bracknell Forest Council and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work to those charged with governance of the Council in the following report:

Bracknell Forest Council audit results report
for the year ended 31 March 2014

Presented to the Governance and Audit
Committee on 25 September 2014

The matters reported here are the most significant for the Council.

We would like to take this opportunity to thank the officers of Bracknell Forest Council for their assistance during the course of our work.

Yours faithfully



Helen Thompson
For and behalf of Ernst & Young LLP
Enc

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Executive summary

Our 2013/14 audit work has been undertaken in accordance with the Audit Plan we issued in March 2014 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly on an annual basis on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of governance arrangements in the year, and on any planned changes in the coming period. The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- ▶ forming an opinion on the financial statements;
- ▶ reviewing the Annual Governance Statement;
- ▶ forming a conclusion on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources; and
- ▶ undertaking any other work specified by the Audit Commission.

Summarised below are the conclusions from all elements of our work:

Audit the financial statements of Bracknell Forest Council for the financial year ended 31 March 2014 in accordance with International Standards on Auditing (UK & Ireland)	On 25 September 2014 we issued an unqualified audit opinion for the Council.
Form a conclusion on the arrangements the Council has made for securing economy, efficiency and effectiveness in its use of resources.	On 25 September 2014 we issued an unqualified value for money conclusion.
Issue a report to those charged with governance of the Council (the Governance & Audit Committee) communicating significant findings resulting from our audit.	On 25 September 2014 we issued our report to the Council.
Report to the National Audit Office on the accuracy of the consolidation pack the Council is required to prepare for the Whole of Government Accounts.	We reported our findings to the National Audit Office on 25 September 2014.
Consider the completeness of disclosures in the Council's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.	No issues to report.
Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	No issues to report.

Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.	No issues to report.
Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.	On 25 September 2014 we issued our audit completion certificate.
Issue a report to those charged with governance of the Council summarising the certification of grant claims and returns work that we have undertaken.	We will issue our annual certification report to those charged with governance for 2013/14 upon completion of our grants work

2. Key findings

Financial statements audit

We audited the Council's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. We issued an unqualified audit report on 25 September 2014.

In our view, the quality of the process for producing the accounts, including the supporting working papers was good.

The main issues identified as part of our audit were:

Significant risk 1: Localisation of Business Rates

Issue:

- ▶ The Business Rates Retention Scheme came into force on 1 April 2013. Under the scheme half the business rates collected by councils are retained locally and half paid over to central government. The potential cost of successful rateable value appeals is significant to the Council. There is also a high level of estimation uncertainty in determining an accurate provision for the cost in the financial statements.

Findings:

We are satisfied the Council developed an approach to ensure that a materially accurate and complete provision is included in the financial statements, and the provision has been calculated correctly based on an analysis of available information and professional judgment.

Significant risk 2: Risk of management override

Issue:

- ▶ Auditing standards require auditors ordinarily to presume there are risks of fraud in revenue recognition. We identify and respond to this fraud risk on every audit engagement.

Finding:

Our work identified no material misstatement due to fraudulent financial reporting.

Value for money conclusion

We are required to carry out sufficient work to conclude on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In accordance with guidance issued by the Audit Commission, in 2013/14 our conclusion was based on two criteria:

- ▶ the organisation has proper arrangements in place for securing financial resilience; and
- ▶ the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 25 September 2014.

We noted the following issues as part of our audit.

Key finding 1: Financial Resilience

- ▶ The ongoing discussions around the future of the town centre redevelopment draw attention to the need for the Council to review its current approach to long-term financial planning and strategies. Current arrangements are ‘fit for purpose’ to support high-level financial planning. However, these need updating to support the volatility and uncertainties of the town centre redevelopment, the wider capital programme and the continued financial pressures in which the Council will operate.
 - ▶ The future capital programme is likely to present a step change to an already complex and ambitious set of schemes. It will require detailed forward planning, funding and cost control arrangements. Outline proposals identify a capital programme of some £100 million with funding from the Council of somewhere between £25 – 70 million depending on how much government funding is received to support increasing school capacity. These plans mean the Council is likely to need, longer-term, to seek borrowing to fund its longer-term capital plans for new schools, and other developments, including the town centre redevelopment.
 - ▶ More widely, the Council is also operating in an increasingly difficult financial environment with pressure on central funding and a growing incremental gap between service requirements and funding. Whilst the Council continues to hold a good level of reserves, these are unlikely, on their own, to bridge the forecast funding gap over the next three years.
 - ▶ In light of these challenges, the Council needs to develop a more formalised and consolidated suite of processes to support and inform the medium term financial strategy. Forward planning in the current environment will need to support a number of scenarios, and the Council needs to establish a means of setting out the likelihood of these with the necessary financial modelling to support them, often at short notice. The medium-term plan should be clearly linked to detailed cashflow and treasury management plans as well as setting out a strategy on borrowing and debt repayment. The Council could draw on best practice examples from both the local government sector and commercial sector in reviewing current arrangements to address the greater complexities and variables the Council needs to take into account.
-

Key finding 2: Better Care Fund

- ▶ The Council has liaised with the local commissioning care group to establish the structures to implement the Better Care Fund (BCF) during 2013/14. The Council has existing links with its main health commissioner and these have underpinned the development of an outline plan for delivery of BCF in February 2014 in accordance with the national timetable for development and submission of plans. This will shape the service developments and changes – and associated financial, IT and workforce strategies to support delivery – but these are at an early stage of development and will be worked up during 2014/15. The Council needs to ensure its involvement in developing the key infrastructure to deliver this balances putting systems in place to support the structures as well as ensuring it is not exposed to additional risks and financial costs.
-

Objections received

We did not receive any questions or objections to the 2013/14 accounts from members of the public.

Whole of government accounts

We reported to the National Audit Office on 25 September 2014 the results of our work performed in relation the accuracy of the consolidation pack the Council is required to prepare for the whole of government accounts.

We confirmed the Council falls below the audit threshold, and our work did not identify any areas of concern.

Annual governance statement

We are required to consider the completeness of disclosures in the Council's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with CIPFA / SOLACE guidance.

We have no issues to report.

Use of other powers

We identified no issues during our audit that would necessitate using powers under the Audit Commission Act 1998, including reporting in the public interest.

Certification of grants claims and returns

We intend to present our annual certification report for 2013/14 to those charged with governance in January 2015 when our work on 2013/14 grant claims and returns is complete.

3. Control themes and observations

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to those charged with governance at the Council any significant deficiencies in internal control.

We noted through our procedures that Wilks, Head & Eve, the Council's chartered surveyors, had included finance costs within the valuation of assets subject to their review as part of the 5 year rolling programme in 2011/12 and 2012/13. The inclusion of finance costs within the valuation is inconsistent with the CIPFA Code, which stipulates that all investment property and land and buildings should be revalued using the "instant build" approach, which excludes finance costs incurred on the asset. The valuers correctly excluded finance costs in the 2013/14 valuations.

We recommended that finance officers and the Council surveyors communicate this issue to Wilks, Head & Eve. Council officers should also perform regular verification of valuations performed by Wilks, Head & Eve, to ensure finance costs are being excluded from future valuations

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Ernst & Young LLP

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Agenda Item 8

Unrestricted

**TO: GOVERNANCE AND AUDIT COMMITTEE
28 JANUARY 2015**

AMENDMENTS TO THE CONSTITUTION – HEALTH OVERVIEW AND SCRUTINY Assistant Chief Executive

1 PURPOSE OF DECISION

- 1.1 To recommend changes to the Council's Constitution arising from new regulations and Department of Health guidance under the Health and Social Care Act 2012, also from the agreed recommendations of a Health Overview and Scrutiny (O&S) Working Group, and some miscellaneous changes.

2 RECOMMENDATION

- 2.1 **That the Governance and Audit Committee recommends to Council to amend the Constitution, as shown in Appendix 1.**

3 REASONS FOR RECOMMENDATIONS

- 3.1 The new regulations require Council to decide whether to retain health O&S functions itself or to delegate the functions wholly or partly to the Health O&S Panel or elsewhere.
- 3.2 To implement the agreed recommendations of the Health O&S Panel, emanating from a review of the implications of the Francis report.

4 ALTERNATIVE OPTIONS CONSIDERED

- 4.1 An alternative course would be for Council to delegate to the Health O&S Panel or another committee the power to refer to the Secretary of State any concerns over planned substantial developments or substantial variations in the provision of the health service. This would exclude many councillors from the decision making process in the event of a referral of an important matter to the Government.

5 SUPPORTING INFORMATION

Changes Arising from the Health and Social Care Act

- 5.1 The 2012 Health and Social Care Act's amendments to the National Health Service Act 2006, and the accompanying regulations (*The Local Authority (Public Health, Health and Wellbeing Boards and Health Scrutiny) Regulations 2013*) made various changes to the system of health scrutiny. One main change was to confer health scrutiny functions on the local authority, as distinct from any overview and scrutiny committee or panel within the local authority, as is currently the case in the Council. This new provision was designed to give local authorities greater flexibility and freedom over the way they discharge health scrutiny functions. The full council of each local authority is required to determine which arrangement is adopted. For example:

- It may choose to continue to operate its existing health overview and scrutiny committee/panel, delegating its health scrutiny functions to them.
- It may choose other arrangements, such as appointing a committee involving members of the public and delegating its health scrutiny functions (except the function of making referrals) to that committee.
- It may operate its health scrutiny functions through a joint scrutiny committee with one or more other councils.

- 5.2 The Department of Health's long-awaited guidance on the 2013 regulations was issued in June 2014. This included, '*If a council decides to delegate to a health scrutiny committee, it need not delegate all of its health scrutiny functions to that committee (i.e. it could retain some functions itself). For example, it might choose to retain the power to refer issues to the Secretary of State for Health*'. This relates to regulation 23, which deals with consultation of local authorities by 'responsible persons' on proposals for substantial developments of the health service or for substantial variations in the provision of the health service.
- 5.3 Consultations over substantial development or variation in health services affecting Bracknell Forest residents are infrequent, and are likely to be of interest to all councillors, not just those who are members of the Health O&S Panel. Furthermore, it is extremely rare that there are unresolved differences of view such that the Council would want to refer an NHS consultation to the Secretary of State for their re-consideration. Consequently, the most appropriate course could be for
- a) The Health O&S Panel to continue to work closely with the Executive Member for Health and the Director of Adult Social Care, Health and Housing when responding to consultations, involving Council as appropriate. This practice was followed most recently and successfully in the case of the 'Shaping the Future of Health Services' consultation, where the response was agreed by full Council in January 2013.
 - b) The power to refer consultations to the Secretary of State being reserved for Council decision, instead of solely the Health O&S Panel as previously.
- 5.4 No other changes are recommended to the role or operation of the Health O&S Panel, which is well established and effective, nor to the Joint Committee arrangements.

Changes Arising From Recommendations By the Health O&S Panel

- 5.5 The Health O&S Panel's Working Group on the implications of the Francis Report made a number of recommendations in January 2014 which were accepted by the Panel and supported by the Executive. These included having a clear statement of the aim of health O&S, also that the Panel's terms of reference should recognise the role of Local Healthwatch. The Working Group's recommended wording is shown in the amendments at Appendix 1.

Other Changes

- 5.6 The opportunity is also being taken to correct the title of one panel, and to update the wording to reflect the earlier amendment to the Constitution which allowed the O&S Panels to issue reports without the involvement of the O&S Commission.

6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

- 6.1 Nothing to add to the report.

Borough Treasurer

- 6.2 There are no financial implications arising from the recommendations in this report.

Equalities Impact Assessment

- 6.3 There are no direct impact issues to be considered.

Strategic Risk Management Issues

- 6.4 This report presents no strategic risk management issues for the Council.

Other Officers

- 6.5 The views of the Director of Adult Social Care, Health and Housing have been sought in the production of this report.

7 CONSULTATION

Principal Groups Consulted

- 7.1 Corporate Management Team

Method of Consultation

- 7.2 Consultation was carried out on the draft information report.

Representations Received

- 7.3 None.

Background Papers

Quarterly Corporate and Departmental performance reports 2013/14

Contact for further information

Victor Nicholls, Assistant Chief Executive

Victor.nicholls@bracknell-forest.gov.uk

Tel: 01344 355604

Richard Beaumont, Head of Overview & Scrutiny

Richard.beaumont@bracknell-forest.gov.uk

Tel: 01344 352283

Doc. Ref

G\CXO\Overview and Scrutiny

Recommended Changes to the Constitution

(Deleted text shown as struck through and new text shown in bold italics)

Part 3, Section 3

3. OVERVIEW AND SCRUTINY PANELS

3.1 (a) The Overview and Scrutiny Commission shall establish such overview and scrutiny panels as it shall determine, including at least the following ~~three~~ **four** panels:

- Environment, Culture and Communities Overview and Scrutiny Panel
- Adult Social Care, ~~Health~~ and Housing Overview and Scrutiny Panel
- Children, Young People and Learning Overview and Scrutiny Panel
- **Health Overview and Scrutiny Panel**

with terms of reference as set out below. The Commission may discontinue any overview and scrutiny panel and/or appoint alternative or additional panels, subject to there being a minimum of the ~~three~~ **four** standing panels. The Commission may also amend the terms of reference of the panels as appropriate.

(b) Where the Overview and Scrutiny Commission seeks to discontinue or appoint overview and scrutiny panels other than as set out in the Constitution, it may do so provided that it has consulted with interested parties, if appropriate. Any change will be reported to the proper officer and then to the next meeting of the Council by the chairman of the Commission, so that the Constitution may be amended accordingly

3.3 Terms of Reference

The ~~three~~ **four** above mentioned overview and scrutiny panels shall

(i) conduct scrutiny reviews or policy development projects allocated by the Overview and Scrutiny Commission from the corporately agreed work programme, preparing evidence-based reports and recommendations ~~for consideration by the Commission~~.

(ii) at the request of the Overview and Scrutiny Commission:

- review and/or scrutinise decisions made or actions taken in connection with the discharge of any of the Council's functions;
- consider any matter affecting the Borough or its inhabitants.

In addition, the following panels shall have responsibility for performance monitoring activities as set out in the table below.

Environment, Culture and Communities Overview and Scrutiny Panel	To receive Quarterly Service Reports on the work of the Environment, Culture and Communities Department and to question the relevant Executive portfolio holders and senior officers thereon, reporting to the Overview and Scrutiny Commission where necessary.
Adult Social Care, Health and Housing Overview and Scrutiny Panel	To receive Quarterly Service Reports on the work of the Adult Social Care, Health and Housing Department and to question the relevant Executive portfolio holder(s) and senior officers thereon in so far as it relates to the Adult Social Care and housing functions of the Council, reporting to the Overview and Scrutiny Commission where necessary.
Children, Young People and Learning	To receive Quarterly Service Reports on the work of the Children, Young People and Learning Department and to question the relevant Executive

Overview and Scrutiny Panel	portfolio holder(s) and senior officers thereon in so far as it relates to the Children, Young People and Learning functions of the Council, reporting to the Overview and Scrutiny Commission where necessary.
Health Overview and Scrutiny Panel	<p>To undertake all the statutory functions of a scrutiny committee in accordance with Sections 244-246 (and regulations made under those sections) of the Health and Social Care Act 2001. National Health Service Act 2006, as amended by the Health and Social Care Act 2012 and subsequent legislation. The power to refer to the Secretary of State concerns over consultations regarding substantial development or variation in health services is reserved for Council decision.</p> <p>To receive Quarterly Service Reports on the work of the Adult Social Care, Health and Housing Department relating to health and to question the relevant Executive portfolio holder(s) and senior officers thereon in so far as it relates to the health functions of the Council, reporting to the Overview and Scrutiny Commission where necessary.</p>

The overall aim of Health scrutiny is: Through constructive challenge and accountability, to work with the Executive, the Health and Wellbeing Board and Health Service Providers to help ensure good health services are provided to residents of Bracknell Forest, reducing health inequalities, and helping everyone to stay fit and lead healthy lives.

In addition, the Council has established/participates in the following overview and scrutiny committees:

- (i) The Joint East Berkshire Health Overview and Scrutiny Committee.
- (ii) The Joint East Berkshire Health Overview and Scrutiny Committee with Buckinghamshire County Council.

Part 4, Section 9

SECTION 9 – OVERVIEW AND SCRUTINY PROCEDURE RULES

2. Who May Sit on the Overview and Scrutiny Bodies?

All councillors except members of the Executive may be members of the Overview and Scrutiny Commission and/or one or more overview and scrutiny panels. However, no Member may be involved in scrutinising a decision in which he/she has been directly involved. Council may also make appointments of people other than councillors to the Overview and Scrutiny Commission and Panels, to meet statutory and other requirements. ***This will include a representative of Local Healthwatch as an Observer on the Health Overview and Scrutiny Panel***

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Agenda Item 9

TO: GOVERNANCE AND AUDIT COMMITTEE
28 JANUARY 2015

TREASURY MANAGEMENT REPORT Borough Treasurer

1 PURPOSE OF DECISION

- 1.1 The Council must operate a balanced budget, which broadly means cash raised during the year plus any use of reserves will meet its cash expenditure. Part of the treasury management operations ensures this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity before considering maximising investment return.
- 1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the longer term cash flow planning needs to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses.
- 1.3 The Local Government Act 2003 requires a local authority to "have regard to" guidance issued by, or specified by, the Secretary of State. As such, the Council is required to have regard to the Prudential Code and the Code of Practice on Treasury Management in the Public Sector, both issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 1.4 The Code of Practice requires the Council's annual Treasury Strategy to be examined and reviewed by a responsible body. An additional primary requirement of the code is for the receipt by Full Council of a Mid-Year Review Report of the Treasury Management activities of the authority and for the review of the treasury management strategy by a delegated body.
- 1.5 This report seeks to achieve both these requirements

2 RECOMMENDATIONS

- 2.1 That the Committee consider and review the Mid-Year Review Report.
- 2.2 That the Committee agree that the Mid-Year Review Report be circulated to all Members of the Council.
- 2.3 That the Committee review the Treasury Management Report for 2015/16 prior to its approval by Council.

3 REASONS FOR RECOMMENDATIONS

- 3.1 The reasons for the recommendations are set out in the report.

4 ALTERNATIVE OPTIONS CONSIDERED

- 4.1 The Code of Practice requires the Council's annual Treasury Strategy to be examined and reviewed by a responsible body. The Governance and Audit Committee has been nominated by Council to be that body.

5 SUPPORTING INFORMATION

Mid-Year Review

5.1 This mid year report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:

- An economic update for the first nine months of 2014/15
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy
- The Council's capital expenditure
- A review of the Council's investment portfolio for 2014/15
- A review of compliance with Treasury and Prudential Limits for 2014/15

Economic Update

5.2 UK GDP growth surged during 2013 and the first half of 2014. Since then it appears to have subsided somewhat but still remains strong by UK standards and is expected to continue likewise throughout 2015 and 2016. There needs to be a significant rebalancing of the economy away from consumer spending to manufacturing, in order for this recovery to become more firmly established. One drag on the economy has been that wage inflation has only recently started to exceed CPI inflation, so enabling disposable income and living standards to start improving. The plunge in the price of oil brought CPI inflation down to a low of 0.5% in December, the lowest rate since CPI has been recorded. Inflation is expected to stay below 1.0% for the best part of a year; this will help improve consumer disposable income and so underpin economic growth during 2015. In addition, the encouraging rate at which unemployment has been falling must eventually feed through into pressure for wage increases, though current views on the amount of hidden slack in the labour market probably means that this is unlikely to happen early in 2015.

5.3 The US, the biggest world economy, has generated stunning growth rates of 4.6% (annualised) in Q2 2014 and 5.0% in Q3. This is hugely promising for the outlook for strong growth going forwards and it very much looks as if the US is now firmly on the path of full recovery from the financial crisis of 2008. Consequently, it is now confidently expected that the US will be the first major western economy to start on central rate increases by mid 2015.

5.4 As for the Eurozone in general, concerns in respect of a major crisis subsided considerably in 2013. However, the downturn in growth and inflation during the second half of 2014, and worries over the Ukraine situation, Middle East, Greek Elections and Ebola, have led to a resurgence of those concerns as risks increase that it could be heading into deflation and prolonged very weak growth. Sovereign debt difficulties have not gone away and major concerns could return in respect of individual countries (particularly Greece, but also Spain, France and Italy) that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done).

Treasury Management Strategy Statement Review

5.5 The Treasury Management Strategy Statement (TMSS) for 2014/15 was approved by the Council on 26th February 2014. There are no policy changes to the TMSS.

Capital Expenditure

- 5.6 The table below shows the revised estimates for capital expenditure and the changes since the capital programme was agreed by Full Council. No external borrowing is forecast for the year.

Department	Approved Budget 2014/15 £'000s	Cash Budget 2014/15 £'000s	Estimated Out-turn 2014/15 £'000s	Cash Budget 2015/16 £'000s	(Under) /Over Spend £'000s
Adult Social Care, Health & Housing	4,548.1	4,002.8	3,722.8	545.3	-280.0
Children, Young People and Learning	22,261.0	16,183.1	16,183.1	6,077.9	0.0
Council Wide	5,668.7	5,569.6	5,564.9	99.1	-4.7
Corporate Services	804.1	804.1	804.1	0.0	0.0
Environment, Culture and Communities	14,640.8	13,965.8	13,965.8	675.0	0.0
TOTAL CAPITAL PROGRAMME	47,922.7	40,525.4	40,240.7	7,397.3	- 284.7

Review of Investment Portfolio 2014/15

- 5.7 The Council held £48.241m of investments as at 31 December 2014 and the investment portfolio yield for the first nine months of the year is 0.5% against a benchmark (Local Authority 7-Day Rate) of 0.35%.

Investment	Maturity	Amount (£)	Average Rate (%)
Money Market Funds			
Ignis Liquidity Fund	1 Day	6,997,000	0.4775
Black Rock Sterling Liquidity	1 Day	4,467,000	0.4114
Federated Prime Rate	1 Day	3,955,000	0.4512
Goldman Sachs	1 Day	742,000	0.4207
Aberdeen Liquidity	1 Day	10,000	0.3564
Deutsche Managed Sterling Fund	1 Day	70,000	0.4000
		16,241,000	
Fixed Term Deposits			
Lloyds	05/03/2015	3,500,000	0.7000
Barclays Bank	02/01/2015	3,500,000	0.4900
Santander	05/01/2015	2,000,000	0.5500
Nationwide	15/01/2015	1,500,000	0.5000
Royal Bank of Scotland	22/01/2015	3,000,000	0.4900
Nationwide	22/01/2015	3,000,000	0.5000
Royal Bank of Scotland	26/01/2015	3,500,000	0.5000
Lloyds	05/05/2015	3,500,000	0.7000
Barclays Bank	13/02/2015	3,500,000	0.5100
Santander	13/02/2015	2,500,000	0.5500
Nationwide	09/03/2015	2,500,000	0.5000
		32,000,000	
Total Investments		48,241,000	

- 5.8 The 2014/15 interest budget assumed that an average interest rate of 1.0% would be earned on the Council's investment portfolio. The Bank Rate (set monthly by the Bank of England) has remained at an historical low of 0.5% and, given the current economic situation outlined above, is likely to remain at this level for some months to come.
- 5.9 Cash balances however remain significantly on the upside, creating additional opportunities to deposit surplus cash at longer fixed term maturities, rather than having to limit investments to overnight low-yielding money market funds although the Council is limited by the number of counterparties available to it. The Council continues to invest in only the most highly rated UK financial institutions, or those part-nationalised UK Banks. Notwithstanding this low-risk approach, the opportunities presented by the additional cash-flow will contribute to the investment projections for 2014/15 and as such an additional £200,000 of investment income has been projected for the year, against a budget of £298,000.

Compliance with Treasury and Prudential Limits for 2014/15

- 5.10 The Borough Treasurer can confirm that the approved limits within the Annual Investment Strategy were not breached during the first nine months of 2015/16 and no changes to these limits are proposed for the remaining 3 months.

Treasury Management Strategy 2015/16

- 5.11 The Council is required to have regard to the Prudential Code and Code of Practice on Treasury Management in the Public Sector, both issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). Under these requirements the Council must set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable At its meeting on 2 March 2011 Council nominated the Governance and Audit Committee as the responsible body to examine and assess the effectiveness of the treasury management strategy and policies and recommend them to Council.
- 5.12 The attached Treasury Management Report (annex A) was approved by the Executive, as a part of the Council's overall budget proposals, on 16 December 2014 and outlines the Council's Prudential Indicators for 2015/16 to 2017/18 in addition to setting out the expected treasury operations for this period. The Executive requested that the Governance and Audit Committee review each of the key elements. Following this review the Treasury Management Report and associated documents will be presented to Council for approval on 25 February 2015, as a part of the overall budget package and resolution on the Council Tax for 2015/16.

6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

- 6.1 None.

Borough Treasurer

- 6.2 The financial implications are contained within the report.

Equalities Impact Assessment

- 6.3 None.

Strategic Risk Management Issues

- 6.4 The Treasury Management Report deals directly with the strategic management of risk associated with the Council's treasury management activities

7 CONSULTATION

Principal Groups Consulted

- 7.1 The Overview & Scrutiny Commission was consulted on the budget proposals, including the Treasury Management Strategy, in December.

Background Papers

None

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TREASURY MANAGEMENT REPORT

- 1.1 The Local Government Act 2003 requires the Council to "have regard to" the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.
- 1.2 This report outlines the Council's prudential indicators for 2015/16 – 2017/18 and sets out the expected treasury operations for this period. It fulfils four key legislative requirements:
 - The reporting of the prudential indicators setting out the expected capital activities at Annex A(i) (as required by the CIPFA Prudential Code for Capital Finance in Local Authorities).
 - The Council's Minimum Revenue Provision (MRP) Policy at Annex A(ii), which sets out how the Council will pay for capital assets through revenue each year (as required by Regulation under the Local Government and Public Involvement in Health Act 2007);
 - The Treasury Management Strategy Statement which sets out how the Council's treasury service will support the capital decisions taken above, the day to day treasury management and the limitations on activity through treasury prudential indicators. The key indicator is the Authorised Limit, the maximum amount of debt the Council could afford in the short term, but which would not be sustainable in the longer term. This is the Affordable Borrowing Limit required by s3 of the Local Government Act 2003 and shown at Annex A(iii);
 - The Annual Investment Strategy which sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss. This strategy is in accordance with the CLG Investment Guidance and is shown in Annex A(iv).
- 1.3 There are few changes between this report and that presented last year. The following highlights are noted to aid comparison
 - The Council's primary investment objectives are the safeguarding of its principal whilst ensuring adequate liquidity. As global economies emerge from very uncertain times the Council will continue to use the highest quality counterparties and maintain short-duration maturities. As such there are no changes to the Council's Investment Criteria from 2014/15.
 - Interest rates are unlikely to return to their pre-crisis level of 5% in the foreseeable future. Indeed interest rates are unlikely to rise above 1% in the next 12 months. As such the Council's rate of return on investments are unlikely to be materially impacted by interest rates in the next 12 months – a position similar to 2014/15.
 - The Council is embarking on a period of significant capital expenditure in the Borough that exceeds that which has gone before. This expenditure will require external borrowing and as such the Council will require a strategy for managing this. The Council is fortunate to be undertaking this expenditure at a time when borrowing rates are near an historical low. This expenditure is reflected in a number of the Prudential Indicators which show a departure from previous years and has been allowed for in the General Fund Revenue Account.

The Capital Prudential Indicators 2015/16 – 2017/18

The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce prudential indicators. Each indicator either summarises the expected capital activity or introduces limits upon that activity, and reflects the outcome of the Council's underlying capital appraisal systems.

Within this overall prudential framework there is an impact on the Council's treasury management activity – as it will directly impact on borrowing or investment activity and as such the Treasury Management Strategy for 2015/16 to 2017/18 complements these indicators. Some of the prudential indicators are shown in the Treasury Management Strategy to aid understanding.

The Capital Expenditure Plans

The Council's capital expenditure plans are summarised below and this forms the first of the prudential indicators. A certain level of capital expenditure is grant supported by the Government; any decisions by the Council to spend above this level will be considered unsupported capital expenditure. This unsupported capital expenditure needs to have regard to:

- Service objectives (e.g. strategic planning);
- Stewardship of assets (e.g. asset management planning);
- Value for money (e.g. option appraisal);
- Prudence and sustainability (e.g. implications for external borrowing and whole life costing);
- Affordability (e.g. implications for the council tax);
- Practicality (e.g. the achievability of the forward plan).

The revenue consequences of capital expenditure, particularly the unsupported capital expenditure, will need to be paid for from the Council's own resources.

This capital expenditure can be paid for immediately (by applying capital resources such as capital receipts, capital grants etc., or revenue resources), but if these resources are insufficient any residual capital expenditure will add to the Council's borrowing need.

The key risks to the plans are that the level of Government support has been estimated and is therefore maybe subject to change. Similarly some estimates for other sources of funding, such as capital receipts, may also be subject to change over this timescale. For instance anticipated asset sales may be postponed due to external factors, similarly the proceeds from the Right-to-Buy sharing agreement with Bracknell Forest Homes will also be impacted on by the wider economy.

The Council is asked to approve the summary capital expenditure projections below. This forms the first prudential indicator:

Capital Expenditure	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000
Capital Expenditure	32,122	49,714	24,374
Financed by:			
Capital receipts	2,500	2,500	2,500
Capital grants & Contributions	17,804	11,803	8,876
Revenue	0	0	0
Net financing need for the year	16,818	40,411	17,998

The Council's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. The capital expenditure above which has not immediately been paid for will increase the CFR. Due to the nature of some of the capital expenditure identified above (ie grant), an element will be immediately impaired or will not qualify as capital expenditure for CFR purposes. As such the net financing figure above may differ from that used in the CFR calculation.

The Council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary payments (VRP). No additional voluntary payments are planned.

The Council is asked to approve the CFR projections below:

	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000
Capital Financing Requirement			
Total CFR	75,913	112,715	125,919
Movement in CFR	17,827	36,802	13,205

Movement in CFR represented by			
Net financing need for CFR purposes #	19,404	38,771	15,488
Less MRP/VRP and other financing movements	-1,577	-1,969	-2,283
Movement in CFR	17,827	36,802	13,205

2015/16 includes impact of carry-forward from 2014/15

CLG Regulations have been issued which require full Council to approve an MRP Statement in advance of each year. The Council is recommended to approve the MRP Statement attached in Annex A(ii)

Affordability Prudential Indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

Estimates of the ratio of financing costs to net revenue stream.

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Ratio	-0.16%	0.15%	2.33%

The estimates of financing costs include current commitments and the proposals in the Capital Programme Budget report.

Incremental impact of capital investment decisions on the Council Tax

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

	Forward Projection 2015/16	Forward Projection 2016/17	Forward Projection 2017/18
Council Tax - Band D	£3.50	£32.18	£20.86

Minimum Revenue Provision (MRP) Policy Statement

The concept of the Minimum Revenue Provision (MRP) was introduced when the Local Government Capital Finance System was changed on 1 April 1990. This required local authorities to assess their outstanding debt and to make an annual charge to the General Fund of 4% of the General Fund Debt.

Department for Local Government & Communities (DCLG) issued regulations in 2008 which require a local authority to calculate for the current financial year an amount of MRP which it considers “prudent”. The broad aim of a prudent provision is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits or in the case of borrowing supported by government, reasonably commensurate with the period implicit in the determination of the grant. The Council can choose to charge more than the minimum.

It is a requirement of these new regulations that full Council approve an annual MRP Statement of its policy on making MRP.

As capital expenditure is incurred which cannot be immediately financed through capital receipts or grant the Council’s borrowing need (its Capital Financing Requirement) will be positive and an MRP will be required. In practice the Council is unlikely to need to borrow externally in the short-term as it has sufficient revenue investments to fund the capital programme in the forthcoming 12 months. However it will still need to make a charge to revenue for this “internal borrowing”.

The move to International Financial Reporting Standards (IFRS) in local government brought more PFI schemes on balance sheet and resulted in some leases (or parts of leases) being reclassified as finance lease instead of operating leases. These contracts would become subject to the requirement to provide MRP. IFRS requires these changes to be accounted for retrospectively. With the result that an element of the rental or service charge payable in previous years will be taken to the balance sheet to reduce the liability. On its own this change would result in a one-off increase to the capital financing requirement, and an equal increase in revenue account balances. This is not seen as a prudent course of action and as such the guidance recommends the inclusion in the annual MRP charge of an amount equal to the amount that has been taken to the balance sheet to reduce the liability, including the retrospective element in the first year.

The guidance sets out four options for making MRP. It envisages that authorities can distinguish between borrowing that is “supported” (through the RSG system) and other “unsupported or prudential” borrowing. The first two methods should only be used for “supported” borrowing

- 1) The regulatory method. This involves following the existing practice outlined in the former DCLG regulation. For the Council this is essentially the same as the CFR method.
- 2) The CFR Method. This involves setting the MRP equal to 4% of the Capital Financing Requirement at the end of the preceding year.
- 3) The Asset Life Method. This method requires MRP to be charged over the asset life. The asset life is determined in the year MRP commences and is not changed. MRP will not be charged until the asset becomes operational. Therefore it will be possible to take an MRP holiday for those assets in construction.

- 4) The Depreciation Method. This requires the MRP to equal the actual depreciation based on standard accounting procedures.

Recommended Policy

In setting the 2015/16 budget and beyond the following policy is recommended:

- 1) There will be a presumption that capital receipts will be allocated to the appropriate assets in relation to the constraints of the medium term financial strategy.
- 2) The Council will identify the level of “supported borrowing” and use the CFR Method i.e. 4% of this figure as part of the MRP charge. The supported borrowing will be used in full irrespective of the service block the funding was allocated in the grant settlement and will also be allocated to the appropriate assets in relation to the constraints of the medium term financial strategy. For the remaining “unsupported borrowing” the Council will use the asset life method.

The actual charge made in the year will be based on applying the above policy to the previous year’s actual capital expenditure and funding decisions. Therefore the 2015/16 charge will be based on 2014/15 capital out-turn.

The recommended policy is consistent with approach that the Council has adopted in previous years, minimising the impact on the revenue budget whilst ensuring that prudent provision is made for repayment of internal borrowings.

TREASURY MANAGEMENT STRATEGY STATEMENT

The Treasury Management service is an important part of the overall financial management of the Council's affairs. The prudential indicators in Annex A(i) consider the affordability and impact of capital expenditure decisions, and set out the Council's overall capital framework. The Treasury Management service considers the effective funding of these decisions. Together they form part of the process which ensures the Council meets its balanced budget requirement under the Local Government Finance Act 1992.

The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice - 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). This Council has adopted the revised Code.

As a result of adopting the Code the Council also adopted a Treasury Policy Statement. This adoption is the requirement of one of the prudential indicators.

The Code of Practice requires an annual strategy to be reported to Council outlining the expected treasury activity for the forthcoming 3 years. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. A further treasury report is produced after the year-end to report on actual activity for the year, and a new requirement of the revision of the Code of Practice is that there is a mid-year monitoring report.

This strategy covers:

- The Council's debt and investment projections;
- The Council's estimates and limits on future debt levels;
- The expected movement in interest rates;
- The Council's borrowing and investment strategies;
- Treasury performance indicators;
- Specific limits on treasury activities;

Debt and Investment Projections 2015/16 – 2017/18

The borrowing requirement comprises the expected movement in the CFR and any maturing debt which will need to be re-financed. As a result of the significant investment planned by the Authority over the next three years the Council will be required to borrow externally during the period 2015/16 to 2017/18. However the exact timing of this borrowing will depend on the progress made in completing the major schemes. As such this table below highlights the expected change in investment balances.

£'000	2015/16 Estimated	2016/17 Estimated	2017/18 Estimated
External Debt			
Debt at 31 March	0	5,000	45,000
Investments			
Investments at 31 March	17,000	0	0

Limits to Borrowing Activity

Within the prudential indicators there are a number of key indicators to ensure the Council operates its activities within well defined limits. For the first of these the Council needs to ensure that its total borrowing net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2015/16 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Borough Treasurer reports that the Council has complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

The Authorised Limit for External Debt

A further key prudential indicator represents a control on the overall level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been exercised.

The Council is asked to approve the following Authorised Limit:

Authorised limit £000	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Borrowing	65,000	105,000	119,000
Other long term liabilities	17,000	16,000	16,000
Total	82,000	121,000	135,000

Operational Boundary for External Debt

The Authority is also recommended to approve the Operational Boundary for external debt for the same period. The proposed Operational Boundary is based on the same estimates as the Authorised Limit but reflects directly the estimate of the most likely but not worst case scenario, without the additional headroom included within the Authorised Limit to allow for unusual cash movements.

Operational Boundary £m	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Borrowing	62,000	100,000	113,000
Other long term liabilities	17,000	16,000	16,000
Total	79,000	116,000	129,000

Borrowing in advance of need.

The Borough Treasurer may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. Whilst the Borough

Treasurer will adopt a cautious approach to any such borrowing, where there is a clear business case for doing so borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities. Risks associated with any advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year or annual reporting mechanism.

Expected Movement in Interest Rates

The Council has appointed Capita (previously known as Sector Treasury Services) as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives their central view on the future levels of the Bank Rate

Medium-Term Rate Estimates (averages)

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Dec 2014	0.50	2.50	3.90	3.90
Mar 2015	0.50	2.70	4.00	4.00
Jun 2015	0.75	2.70	4.10	4.10
Sep 2015	0.75	2.80	4.30	4.30
Dec 2015	1.00	2.90	4.40	4.40
Mar 2016	1.00	3.00	4.50	4.50
Jun 2016	1.25	3.10	4.60	4.60
Sep 2016	1.25	3.20	4.70	4.70
Dec 2016	1.50	3.30	4.70	4.70
Mar 2017	1.50	3.40	4.80	4.80
Jun 2017	1.75	3.50	4.80	4.80
Sep 2017	2.00	3.50	4.90	4.90
Dec 2017	2.25	3.50	4.90	4.90
Mar 2018	2.50	3.50	5.00	5.00

* Borrowing Rates

Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth has rebounded during 2013 and especially during 2014, to surpass all expectations, propelled by recovery in consumer spending and the housing market. Forward surveys are also currently very positive in indicating that growth prospects are strong for 2015, particularly in the services and construction sectors. However, growth in the manufacturing sector and in exports has weakened during 2014 due to poor growth in the Eurozone. There does need to be a significant rebalancing of the economy away from consumer spending to manufacturing, business investment and exporting in order for this initial stage in the recovery to become more firmly established. One drag on the economy is that wage inflation has been lower than CPI inflation so eroding disposable income and living standards, although income tax cuts have ameliorated this to some extent. This therefore means that labour productivity must improve significantly for this situation to be corrected by warranting increases in pay rates. In addition, the encouraging rate at which unemployment has been falling must eventually feed through into pressure for wage increases, though current views on the amount of hidden slack in the labour market probably means that this is unlikely to happen in the near future. The US, the main world economy, faces similar debt problems to the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises,

the annual government deficit has been halved from its peak without appearing to do too much damage to growth.

As for the Eurozone, concerns in respect of a major crisis subsided considerably in 2013. However, the downturn in growth and inflation during the second half of 2014, and worries over the Ukraine situation, Middle East and Ebola, have led to a resurgence of those concerns as risks increase that it could be heading into deflation and a triple dip recession since 2008. Sovereign debt difficulties have not gone away and major concerns could return in respect of individual countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. Counterparty risks therefore remain elevated.

This continues to suggest the use of higher quality counterparties for shorter time periods with investment returns likely to remain relatively low during 2015/16 and beyond

Borrowing Strategy 2015/16

The Council still will retain significant levels of investments moving into 2015/16 however given the level of capital investments planned by the authority for 2015/16 and beyond, it will be required to borrow externally within the next 24 months. The Borough Treasurer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it is considered that there is a significant risk of a sharp fall in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and short term borrowing will be considered.
- if it is felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in the anticipated rate to US tapering of asset purchases, or in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

Given the current short-term projections for interest rates, any borrowing undertaken in the next 24 months is likely to be of a longer maturity. Any decisions will be reported to the Executive and the Governance & Audit Committee at the next available opportunity.

As such the Authorised Limit for External Debt has been set to enable the Council to manage its cash flow effectively through the use of temporary borrowing, in the unlikely event that this should be necessary.

Investment Strategy 2015/16 – 2017/18

Investment Policy

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

Key Objectives

The Council's investment strategy primary objectives are safeguarding the repayment of the principal and interest of its investments on time first and ensuring adequate liquidity second – the investment return being a third objective. Following the economic background outlined in the Treasury Management Strategy, the current investment climate has one over-riding risk consideration that of counterparty security risk. As a result of these underlying concerns officers are implementing an operational investment strategy which maintains the tightened controls already in place in the approved investment strategy.

Investment Counterparty Selection Criteria

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration.

After this main principle the Council will ensure:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below.
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

In accordance with the Investment Guidance, the Council will, in considering the security of proposed investments, follow different procedures according to which of two categories, Specified or Unspecified, the proposed investment falls into.

Specified Investments offer high security and high liquidity and are:

- ◆ Denominated, paid and repaid in sterling;
- ◆ Not long term investments, i.e. they are due to be repaid within 12 months of the date on which the investment was made;
- ◆ Not defined as capital expenditure; and
- ◆ Are made with a body or in an investment scheme which has been awarded a high credit rating by a credit rating agency or are made with the UK Government or a Local Authority in England, Wales, Scotland or Northern Ireland.

Non-Specified Investments are those which do not meet the definition of Specified Investments.

In accordance with guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings,

watches and outlooks published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using Capita's ratings service, potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

Furthermore, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings. This is fully integrated into the credit methodology provided by the advisors, Capita Asset Services in producing its colour codings which show the varying degrees of suggested creditworthiness.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk. The intention of the strategy is to provide security of investment and minimisation of risk.

Investment instruments identified for use in the financial year are listed in appendix under the 'specified' and 'non-specified' investments categories.

Creditworthiness policy

This Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following maturities .

Dark pink	5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
Light pink	5 years for (EMMFs) with a credit score of 1.5
Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 days
No colour	not to be used

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

	Colour (and long term rating where applicable)	Money and/or % Limit	Time Limit
Banks	orange	£7m	1 yr
Banks – part nationalised	blue	£7m	1 yr
Banks	red	£7m	6 months
Banks	green	£7m	100 days
Banks	No colour	£7m	
Debt Management Account Deposit Facility	AAA	£7m	6 months
Local authorities	n/a	£7m	1 yr
Money market funds	AAA	£7m	liquid
Enhanced money market funds with a credit score of 1.25	Dark pink / AAA	£7m	liquid
Enhanced money market funds with a credit score of 1.5	Light pink / AAA	£7m	liquid

Our creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue influence to just one agency's ratings.

Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of short term rating F1, long term rating A-, viability rating of A-, and a support rating of 1. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored in real time. The Council is alerted to changes to ratings of all three agencies through its use of our creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that supporting government

In the normal course of the council's cash flow operations it is expected that both Specified and Non-specified investments will be utilised for the control of liquidity as both categories allow for short term investments.

The use of longer term instruments (greater than one year from inception to repayment) will fall in the Non-specified investment category. These instruments will only be used where the Council's liquidity requirements are safeguarded however the current investment limits for 2015/16 restrain all investments to less than 1 year. Any amendment to this strategy will require the credit-criteria to be amended to include a long-term rating. This will be addressed through the formal approval by Council of a revised Treasury Management Strategy and Annual Investment Strategy.

Country and Sector Considerations

Due care will be taken to consider the country, group and sector exposure of the Council's investments. The current investment strategy limits all investments to UK Banks, Building Societies and Local Authorities, in addition to Sterling denominated AAA Money Market Funds. The list of banks and building societies currently available to the Council is limited to Lloyds, Barclays, Santander, Royal Bank of Scotland, HSBC and Nationwide.

Economic Investment Considerations

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates. The UK Bank Rate is forecast to remain unmoved through to late 2015. However, should the pace of growth pick up more than expected there could be upside risk.

The criteria for choosing counterparties set out above provides a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve this base criteria above, under the exceptional current market conditions the Borough Treasurer may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to "normal" conditions. Similarly the time periods for investments will be restricted.

Examples of these restrictions would be the greater use of the Debt Management Deposit Account Facility (a Government body which accepts local authority deposits), Money Market Funds, and strongly rated institutions. The credit criteria have been amended to reflect these facilities.

Sensitivity to Interest Rate Movements

Future Council accounts will be required to disclose the impact of risks on the Council's treasury management activity. Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified. The table below highlights the estimated impact of a 1% change in interest rates to the estimated treasury management income for next year.

	2015/16 Estimated + 1%	2015/16 Estimated - 1%
Revenue Budgets	£'000	£'000
Investment income	300	-300

Treasury Management Limits on Activity

There are four further treasury activity limits, which were previously prudential indicators. The purpose of these are to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The indicators are:

Upper limits on variable interest rate exposure – This identifies a maximum limit for variable interest rates based upon the debt position net of investments

Upper limits on fixed interest rate exposure – Similar to the previous indicator this covers a maximum limit on fixed interest rates.

Maturity structures of borrowing – These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

Total principal funds invested for greater than 364 days – These limits are set with regard to the Council's liquidity requirements and are based on the availability of funds after each year-end.

The Council is asked to approve the limits:

	2015/16	2016/17	2017/18
Interest rate Exposures			
	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	£62m	£100m	£113m
Limits on variable interest rates based on net debt	£62m	£100m	£113m
Maturity Structure of fixed interest rate borrowing 2015/16			
	Lower	Upper	
Under 12 months	0%	100%	
12 months to 2 years	0%	100%	
2 years to 5 years	0%	100%	
5 years to 10 years	0%	100%	
10 years and above	0%	100%	
Maximum principal sums invested > 364 days			
Principal sums invested > 364 days	£m 0	£m 0	£m 0

Performance Indicators

The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking. For 2015/16 the Council does not expect to enter into any substantial long-term borrowing and as such the relevant benchmark will relate only to investments and will be the "7 Day LIBID Rate". The results of these indicators will be reported in the Treasury Annual Report.

Treasury Management Advisers

The Council uses Capita Asset Services as its treasury management consultants. The Council recognises that responsibility for treasury management decision remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subject to regular review.

Member and Officer Training

The increased Member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for Members and officers. Following the nomination of the Governance and Audit Committee to examine and assess the effectiveness of the Treasury Management Strategy and Policies, initial training was provided and additional training has been undertaken as necessary. Officer training is carried out in accordance with best practice and outlined in TMP 10 Training and Qualifications to ensure that all staff involved in the Treasury Management function are fully equipped to undertake the duties and responsibilities allocated to them

SPECIFIED INVESTMENTS

All investments listed below must be sterling-denominated.

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Rating **	Circumstance of use	Maximum period
Debt Management Agency Deposit Facility* (DMADF) * this facility is at present available for investments up to 6 months	No	Yes	Govt-backed	In-house	364 Days
Term deposits with the UK government or with Local Authority in England, Wales, Scotland or Northern Ireland with maturities up to 364 Days	No	Yes	High security although LAs not credit rated.	In-house and by external fund managers subject to the guidelines and parameters agreed with them	364 Days
Term deposits with credit-rated deposit takers (banks and building societies), including callable deposits, with maturities up to 364 Days	No	Yes	<i>As per list of approved Counterparties</i>	In-house and by external fund managers subject to the guidelines and parameters agreed with them	364 Days
Certificates of Deposit issued by credit-rated deposit takers (banks and building societies) : up to 364 Days. <i>Custodial arrangement required prior to purchase</i>	No	Yes	<i>As per list of approved Counterparties</i>	To be used by external fund managers only subject to the guidelines and parameters agreed with them	364 Days
Gilts : up to 364 Days	No	Yes	Govt-backed	To be used by external fund managers only subject to the guidelines and parameters agreed with them	364 Days

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Rating **	Circumstance of use	Maximum period
Money Market Funds <i>These funds do not have any maturity date</i>	No	Yes	<i>AAA Rating by Fitch, Moodys or S&P</i>	In-house and by external fund managers subject to the guidelines and parameters agreed with them	The period of investment may not be determined at the outset but would be subject to cash flow and liquidity requirements
Forward deals with credit rated banks and building societies < 1 year (i.e. negotiated deal period plus period of deposit)	No	Yes	<i>As per list of approved Counterparties</i>	In-house and by external fund managers subject to the guidelines and parameters agreed with them. Tracking of all forward deals to be undertaken and recorded.	1 year in aggregate
Commercial paper <i>[short-term obligations (generally with a maximum life of 9 months) which are issued by banks, corporations and other issuers]</i> <i>Custodial arrangement required prior to purchase</i>	No	Yes	<i>As per list of approved Counterparties</i>	To be used by external fund managers only subject to the guidelines and parameters agreed with them	9 months
Treasury bills <i>[Government debt security with a maturity less than one year and issued through a competitive bidding process at a discount to par value]</i> <i>Custodial arrangement required prior to purchase</i>	No	Yes	Govt-backed	To be used by external fund managers only subject to the guidelines and parameters agreed with them	1 year

NON-SPECIFIED INVESTMENTS

All investments listed below must be sterling-denominated.

<u>Investment</u>	<u>(A) Why use it? (B) Associated risks?</u>	<u>Share/ Loan Capital?</u>	<u>Repayable/ Redeemable within 12 months?</u>	<u>Security / Minimum credit rating **</u>	<u>Circumstance of use</u>	<u>Maximum maturity of investment</u>
Deposits with Authority's Banker where credit rating has dropped below minimum criteria	Where the Council's bank no longer meets the high credit rating criteria set out in the Investment Strategy the Council has little alternative but to continue using them, and in some instances it may be necessary to place deposits with them, these deposits should be of a very short duration thus limiting the Council to daylight exposure only (i.e. flow of funds in and out during the day, or overnight exposure).	No	Yes	n/a	In-House	364 Days
Term deposits with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	(A) (i) Certainty of rate of return over period invested. (ii) No movement in capital value of deposit despite changes in interest rate environment. (B) (i) Illiquid : as a general rule, cannot be traded or repaid prior to maturity. (ii) Return will be lower if interest rates rise after making the investment. (iii) Credit risk : potential for greater deterioration in credit quality over longer period	No	No	<i>As per list of approved Counterparties</i>	In-house and by external fund managers subject to the guidelines and parameters agreed with them	5 Years
Certificates of Deposit with credit rated deposit takers (banks and building societies) with maturities greater than 1 year <i>Custodial arrangement required prior to purchase</i>	(A) (i) Although in theory tradable, are relatively illiquid. (B) (i) 'Market or interest rate risk' : Yield subject to movement during life of CD which could negatively impact on price of the CD.	No	Yes	<i>As per list of approved Counterparties</i>	To be used by external fund managers only subject to the guidelines and parameters agreed with them	5 years

<u>Investment</u>	<u>(A) Why use it?</u> <u>(B) Associated risks?</u>	<u>Share/ Loan Capital?</u>	<u>Repayable/ Redeemable within 12 months?</u>	<u>Security / Minimum Credit Rating?</u>	<u>Circumstance of use</u>	<u>Maximum maturity of investment</u>
Callable deposits with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	(A) (i) Enhanced income ~ Potentially higher return than using a term deposit with similar maturity. (B) (i) Illiquid – only borrower has the right to pay back deposit; the lender does not have a similar call. (ii) period over which investment will actually be held is not known at the outset. (iii) Interest rate risk : borrower will not pay back deposit if interest rates rise after deposit is made.	No	No	<i>As per list of approved Counterparties</i>	In-house and by external fund managers subject to the guidelines and parameters agreed with them	5 years
UK government gilts with maturities in excess of 1 year <i>Custodial arrangement required prior to purchase</i>	(A) (i) Excellent credit quality. (ii) Very Liquid. (iii) If held to maturity, known yield (rate of return) per annum ~ aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk (B) (i) 'Market or interest rate risk' : Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss.	No	Yes	Govt backed	To be used by external fund managers only subject to the guidelines and parameters agreed with them	10 years including but also including the 10 year benchmark gilt

<u>Investment</u>	<u>(A) Why use it?</u> <u>(B) Associated risks?</u>	<u>Share/ Loan Capital?</u>	<u>Repayable/ Redeemable within 12 months?</u>	<u>Security / Minimum credit rating **</u>	<u>Circumstance of use</u>	<u>Maximum maturity of investment</u>
Forward deposits with credit rated banks and building societies for periods > 1 year (i.e. negotiated deal period plus period of deposit)	(A) (i) Known rate of return over period the monies are invested ~ aids forward planning. (B) (i) Credit risk is over the whole period, not just when monies are actually invested. (ii) Cannot renege on making the investment if credit rating falls or interest rates rise in the interim period.	No	No	<i>As per list of approved Counterparties</i>	In-house and by external fund managers subject to the guidelines and parameters agreed with them. Tracking of all forward deals to be undertaken and recorded.	5 years
Deposits with unrated deposit takers (banks and building societies) but with unconditional financial guarantee from HMG or credit-rated parent institution : any maturity	(A) Credit standing of parent will determine ultimate extent of credit risk	No	Yes	<i>As per list of approved Counterparties</i>	In-house and by external fund managers subject to the guidelines and parameters agreed with them	1 year

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**TO: GOVERNANCE AND AUDIT COMMITTEE
28 JANUARY 2015**

SEALING OF DEEDS
Director of Corporate Services – Legal

1 PURPOSE OF REPORT

- 1.1 This report seeks the endorsement of the Committee to a proposed change to the provision of the Council's Constitution which relates to the execution of deeds on behalf of the Council.

2 RECOMMENDATION

- 2.1 **That the Committee recommend to Council that the Council's Constitution be amended to provide that the affixing of the Common Seal of the Council should be attested by the Borough Solicitor or (in his/her absence) another Solicitor authorised by the Borough Solicitor.**

3 REASONS FOR RECOMMENDATION

- 3.1 The current requirements of the Council's Constitution which requires execution of Deeds to be attested by the Borough Solicitor and the Mayor, the Deputy Mayor or another nominated Member are unnecessarily bureaucratic and do not facilitate the swift completion of deeds.

4 ALTERNATIVE OPTIONS CONSIDERED

- 4.1 To retain the current arrangements, but for the reasons set out in this report that option is not considered to be desirable.

5 SUPPORTING INFORMATION

- 5.1 Unlike companies, in order to execute a Deed the Council must affix its Common Seal to a Deed in order for the Deed to be properly executed. The affixing of the Common Seal has to be attested to (i.e. witnessed) by one or more persons.

- 5.2 The Council's Constitution currently provides (Part 4, Section 17) that:-

“The affixing of the Common Seal will be attested by the Borough Solicitor, or some other authorised by him or her, and the Mayor or Deputy Mayor, or in their absence, another Member nominated by either of them”.

- 5.3 The Council executes a considerable number of Deeds for a wide variety of transactions. In the 2013 calendar year Deeds were completed for 358 transactions; the number of signatures required for attestation was significantly greater as frequently two, three or more engrossments of the same Deed require sealing. In addition, plans annexed to Deeds should be signed or initialled. Accordingly, taking into account time spent in travelling by Councillors to Easthampstead House, a not

insignificant amount of Member time has been engaged in attesting the sealing of documents

- 5.4 Not infrequently Deeds have to be completed at very short notice. Mayors and Deputy Mayors have been very understanding in attending Easthampstead House at short notice to sign Deeds. However, given that there is no requirement in law for a Member to have to attest the affixing of the Council's Seal, although the current provisions of the Constitution concerning the execution of Deeds may have a certain sense of municipal charm, it is not immediately apparent why Councillors should be unnecessarily inconvenienced or Legal officers should have to endeavour to synchronise transaction completion dates with the Mayor or Deputy Mayor's availability. The Council is alone amongst the Berkshire Unitary Authorities, possibly alone amongst all Unitary Authorities, in requiring the affixing of the Common Seal to be attested by a Councillor.
- 5.5 It is proposed that the Council's Constitution be amended to provide that the affixing of the Common Seal should be attested by the Borough Solicitor or in his/her absence a solicitor employed by the Council and authorised by the Borough Solicitor to attest.
- 5.6 It is should be noted that the proposals in this report would not in any way alter the need for separate authorisation (whether from Members or officers acting under delegated powers), for those transactions in respect of which Deeds are executed.

6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

- 6.1 The Borough Solicitor is the author of this report.

Borough Treasurer

- 6.2 There are no financial implications directly arising.

Equalities Impact Assessment

- 6.3 Not Required.

Strategic Risk Management Issues

- 6.4 None.

7 CONSULTATION

Principal Groups Consulted

- 7.1 None.

Method of Consultation

- 7.2 Not applicable.

Representations Received

7.3 Not applicable.

Background Papers

None

Contact for further information

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Doc Ref:

Aj/f/reports/Governance and Audit – 28 January – Sealing of Deeds

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**TO: GOVERNANCE AND AUDIT COMMITTEE
28 JANUARY 2015**

COMMUNITY INFRASTRUCTURE LEVY – DELEGATIONS TO OFFICERS
Director of Corporate Services/Director of Environment Culture and Communities

1 PURPOSE OF REPORT

- 1.1 This report seeks the views of the Committee as to those delegations of powers which should be made to officers in order for the Council to operate the Community Infrastructure Levy (“CIL”) regime when a CIL Charging Schedule adopted by the Council comes into force.

2 RECOMMENDATION

- 2.1 **That the Committee recommend to the Leader of the Council that, save as proposed in Section 5 below, the Council’s powers relating to CIL should be delegated to Officers.**

3 REASONS FOR RECOMMENDATION

- 3.1 The vast majority of decisions relating to CIL will be of a routine, administrative nature which it would be inappropriate and impractical to burden Members with. The decisions identified in Section 5 of this report as being appropriate to be reserved for Members are those relating to key policy elements of the CIL regime.

4 ALTERNATIVE OPTIONS CONSIDERED

- 4.1 Requiring Member input into routine administrative decision making relating to CIL is not considered to be a viable proposition. It would be possible for those decisions identified in Section 5 as being reserved for Members to be taken by officers but that would preclude Member decision making on key policy elements for the local operation of CIL.

5 SUPPORTING INFORMATION

- 5.1 CIL is a tariff based levy which is charged on new development. The levy payable is calculated by reference to a charge payable per quantum of new floorspace provided for a particular type of use (e.g. residential, office, light industrial). The CIL regime will become operative when a “Charging Schedule” comes into force for the Borough. It is anticipated that the Council will adopt a Charging Schedule to come into force on 1 April 2015. CIL will in large measure, but by no means entirely, replace agreements/unilateral undertakings under Section 106 of the Town and Country Planning Act 1990.
- 5.2 Under the Local Government Act 2000 (“the Act”) all functions are “Executive functions” unless primary or sub-ordinate legislation otherwise provides. The Act also specifies that the power to determine whether an Executive function should be

discharged by the full Executive, an Executive Committee, an individual Executive portfolio holder or an officer rests with the Executive Leader (i.e. the Leader of the Council). For that reason the Committee can only recommend rather than determine which functions ought to be delegated to officers.

- 5.3 The primary CIL legislation (the Planning Act 2008) expressly stipulates that the adoption of the Charging Schedule is reserved for full Council. The principal stages leading up to the adoption (or revision) of a Charging Schedule are:-

- approving a draft Charging Schedule for consultation, and
- consideration of any representations before submitting a draft Charging Schedule for examination.

It is proposed that those responsibilities should **NOT** be delegated to officers.

Once a draft Charging Schedule is submitted for examination it may be withdrawn; it is proposed that the decision to withdraw should **NOT** be delegated to officers. It is possible for draft Charging Schedules from different charging authorities to be considered together if the respective authorities agree. Again, it is proposed that the power to agree to joint consideration should **NOT** be delegated to officers. Once approved there is power to correct errors in a Charging Schedule; it is proposed that the power to correct should **NOT** be delegated to officers.

- 5.4 Once the Charging Schedule comes into force the calculation and collection of CIL is a largely administrative process as prescribed by the lengthy and detailed Community Infrastructure Regulations 2010 (“the Regulations”). The collection enforcement process involves elements which are akin to Planning Development Control procedures (e.g. Stop Notices) and others which are akin to the collection of Non-Domestic Rates (e.g. Liability Orders). However, the CIL regulations do provide for some decisions to be taken which will clearly involve elements of policy discretion and which therefore should **NOT** be delegated to officers.

Those decisions are:-

- (a) whether or not to make (or withdraw) discretionary charitable relief available in the area
- (b) whether or not to make (or withdraw) discretionary social housing relief
- (c) whether or not to make relief for exceptional circumstances available in the area
- (d) approval of an instalment policy for the payment of the levy
- (e) whether or not to accept a “land payment” (i.e. to take a transfer of land) in full or part payment of the levy where the estimated land value exceeds £100,000 (under the Council’s Scheme of Delegation the Chief Officer Property has delegated authority to acquire a freehold interest in land for a consideration not exceeding £100,000)
- (f) whether or not to make infrastructure payments available in the area (i.e. agree provision of some form of infrastructure in whole or part payment of CIL)

- (g) determining whether or not to accept an infrastructure payment where the value of the infrastructure exceeds £500,000
- (h) approval of the list (“Regulation 123 list”) of infrastructure to be funded by CIL.

6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

- 6.1 The Borough Solicitor is the author of this report.

Borough Treasurer

- 6.2 Nothing to add to the report.

Equalities Impact Assessment

- 6.3 Not Required.

Strategic Risk Management Issues

- 6.4 None in consequence of this report.

7 CONSULTATION

Principal Groups Consulted

- 7.1 None.

Method of Consultation

- 7.2 Not applicable.

Representations Received

- 7.3 Not applicable.

Background Papers

None

Contact for further information

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Doc Ref:

Aj/f/reports/Governance and Audit – 28 January - CIL

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**TO: GOVERNANCE AND AUDIT COMMITTEE
28 JANUARY 2015**

**INTERNAL AUDIT ASSURANCE REPORT
April –December 2014
Head of Audit and Risk Management**

1 INTRODUCTION

- 1.1 This report provides a summary of Internal Audit activity during the period April to December 2014. It covers work carried out by both internal audit contractors and the in-house team. Any significant developments since the time of writing will be reported verbally to the Committee and included in future assurance reports.

2 RECOMMENDATIONS

- 2.1 **The Governance and Audit Committee are asked to note the contents of the attached report at Appendix 1.**
- 2.2 **The Governance and Audit Committee approve the Internal Audit Charter at Appendix 2.**

3 REASONS FOR RECOMMENDATION

- 3.1 To ensure that the Governance and Audit Committee are aware of the internal audit work performed and conclusions reached.

4 ALTERNATIVE OPTIONS CONSIDERED

- 4.1 No alternative options available.

5 SUPPORTING INFORMATION

Background

- 5.1 Under the Council's Constitution and Scheme of Delegation the Borough Treasurer is responsible for the administration of the financial affairs of the Council under Section 151 of the Local Government Act 1972. Professional guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) requires the provision of an effective Internal Audit function to partly fulfil his responsibilities under Section 151.
- 5.2 The provision of Internal Audit services is largely outsourced to Mazars Public Sector Internal Audit. Mazars are responsible for delivering approximately two thirds of the audits set out in the Annual Internal Audit Plan approved by the Governance and Audit Committee in April 2014. The remaining audits are delivered by Reading and Wokingham Council's internal audit teams under an agreement under Section 113 of the Local Government Act 1972 which provides for the sharing of staff resources or are undertaken in house. The attached report summarises delivery to date on the audits approved under the Plan and other assurance activities carried out in-house within Audit and Risk Management.

Internal Audit Charter

- 5.3 With effect from 1st April 2013, a common set of Public Sector Internal Audit Standards (PSIAS) were introduced which are applicable to and mandatory for all UK public sector organisations including local authorities. PSIAS require the Council to formally define the purpose, authority and responsibility of internal audit in an internal audit charter which must be presented to and approved by senior management and “the Board”. The role of “the Board” is undertaken by the Governance and Audit Committee at Bracknell Forest Council. The Internal Audit Charter has been developed in accordance with PSIAS and is attached at appendix 1 for review and approval.

6. ADVICE FROM STATUTORY OFFICERS

- 6.1 Borough Treasurer
Nothing to add.

- 6.2 Borough Solicitor
Nothing to add.

- 6.3 Strategic Risk
Internal Audit provides assurance on the Council’s control environment based on the work undertaken and areas audited. Internal control is based upon an ongoing process designed to identify and prioritise risks and to evaluate the likelihood of those risks being realised and the impact should they arise. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate risk of failure altogether. No system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance.

- 6.4 Equalities Impact Assessment
Not applicable

7 CONSULTATION

- 7.1 Not applicable.

Background Papers

Annual Internal Plan 2013/14
Strategic Risk Register

Contact for further information
Sally Hendrick – 01344 352092
sally.hendrick@bracknell-forest.gov.uk



HEAD OF AUDIT AND RISK MANAGEMENT REPORT

APRIL – DECEMBER 2014

1. BACKGROUND

- 1.1 The Council is required under the Accounts and Audit (Amendment) (England) Regulations to "maintain an adequate and effective system of internal audit of its accounting records and of its systems of internal control in accordance with the proper practices in relation to internal control." This report summarises the activities of Internal Audit for the period April to December 2014 drawing together progress on the Annual Internal Audit Plan, risk management and other activities carried out by Internal Audit.

2. INTERNAL AUDIT

- 2.1 The basic approach adopted by Internal Audit falls broadly into four types of audit:
- System reviews provide assurance that the system of control in all activities undertaken by the Council is appropriate and adequately protects the Council's interests.
 - Regularity (financial) checking helps ensure that the accounts maintained by the Council accurately reflect the business transacted during the year. It also contributes directly towards the external auditor's audit of the annual accounts.
 - Computer/IT audits, carried out by specialist audit staff, provide assurance that an adequate level of control exists over the provision and use of computing facilities
 - Certification as required by relevant Government departments that grant monies have been spent in accordance with grant terms and conditions.
- 2.2 Recommendations are made after individual audits, leading to an overall assurance opinion for the system or establishment under review and building into an overall annual assurance opinion on the Council's operations. The different categories of recommendation and assurance opinion are set out in the following tables.

Recommendation Classifications

PRIORITY	DESCRIPTION
1	Essential – addresses a fundamental control weakness and must be brought to the specific attention of senior management and resolved.
2	Important – addresses a control weakness and should be resolved by management in their area(s) of responsibility.
3	Best practice – addresses a potential improvement or amendment issue.

Assurance Opinion Classifications

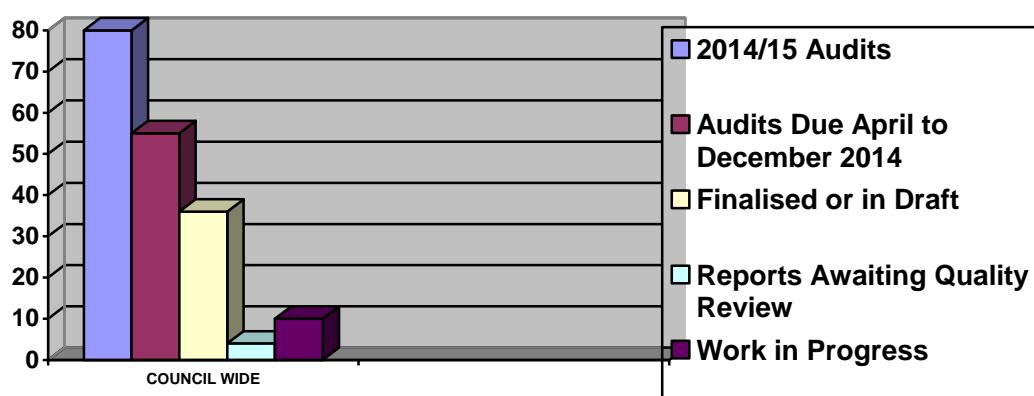
ASSURANCE LEVEL	DEFINITION
Significant	There is a sound system of internal controls to meet the system objectives and testing performed indicates that controls are being consistently applied
Satisfactory	There is basically a sound system of internal controls although there are some minor weaknesses in controls and/or there is evidence that the level of non-compliance may put some minor systems objectives at risk.
Limited	There are some weaknesses in the adequacy of the internal control system which put the systems objectives at risk and/or the level of compliance or non-compliance puts some of the systems objectives at risk.
No Assurance	Control is weak leaving the system open to significant error or abuse and/or there is significant non-compliance with basic controls.

- 2.3 Internal Audit provides the relevant Director and the Borough Treasurer with details of all audits which have generated Priority 1 recommendations and, therefore, a limited (or no) assurance opinion, as soon as the draft report is issued. This ensures that the senior management and the Section 151 Officer are informed at the earliest opportunity of any potential significant weaknesses or problem areas. Where satisfactory or significant assurance opinions are given, Directors receive copies of the final agreed report.

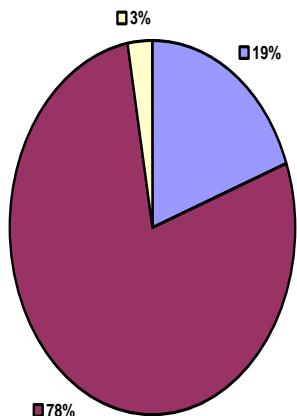
3. SUMMARY OF INTERNAL AUDIT RESULTS TO DATE

- 3.1 The Annual Internal Audit Plan for 2014/15 was considered and approved by the Governance and Audit Committee on 1st April 2014. The delivery of the individual audits is largely undertaken by our contractors Mazars Public Sector Internal Audit. In addition, 25 reviews and grants will be audited under the Section 113 arrangement with Reading and Wokingham Borough Councils' Internal Audit Teams and 17 reviews and grants are scheduled to be audited in house.
- 3.2 During the period April to December 2014, 10 grants were certified, 1 memo was issued on compliance with NHS Pensions requirements, 28 reports were finalised, 8 had been issued in draft awaiting management responses, 4 were in draft awaiting internal quality review and in 10 cases audit work was in progress. A summary of performance to date is set out below. Details on the status and outcome of all audits are attached at Appendix A.

SUMMARY OF PERFORMANCE APRIL – DECEMBER 2014

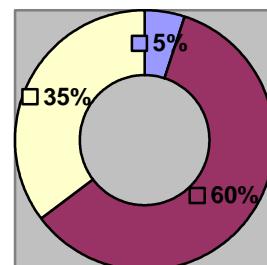


ASSURANCE OPINIONS



■ Limited ■ Satisfactory ■ Significant

ANALYSIS OF RECOMMENDATIONS



■ Priority 1 ■ Priority 2 ■ Priority 3

ASSURANCE	FINAL AND DRAFT APRIL- DECEMBER 2014	FINAL AND DRAFT APRIL- DECEMBER 2013
Significant	7	1
Satisfactory	28	37
Limited	1	3
Total for Audits Including an Opinion	36	41
Grant Claim Certifications	10	6
Memos issued	1	1
Total	47	48

	Client Questionnaires		Draft Report Produced within 15 Days of Exit meeting
	Received	Satisfactory	
2014/15 to Date	14	100%	61%
2013/14	34	97%	70%

- 3.3 As noted above and Appendix A, delivery against the planned programme is on track with the bulk of quarter 1- 3 audits finalised, issued in draft or awaiting quality review at the time of writing this report and a further 10 already in progress. The majority of assurance opinions given were satisfactory with one significant and 7 limited opinions (2013/14: 1 for April to December and 4 for the full year). Most recommendations raised to date were priority 2. Only 3% were at priority 1 level.

Significant Control Issues

- 3.4 All audits, which have generated a limited assurance opinion, will be revisited in 2014/15, to ensure successful implementation of agreed recommendations. The key weaknesses identified during the 3 finalised audits with a limited assurance opinion to date are as follows:

DIRECTORATE	AUDITS WITH LIMITED ASSURANCE CONCLUSION
ADULT SOCIAL CARE, HEALTH AND HOUSING	<p><u>HEATHLANDS</u></p> <p>A limited assurance opinion was given due four priority 1 recommendations which were raised to address incomplete and out of date financial procedures, weaknesses in controls and accounting records for residents monies and income and banking of receipts and lack of progress in implementing recommendations had been raised and agreed with management at the previous audit in 2011. Management has now confirmed that actions have been implemented to address weaknesses found and ensured that the outstanding recommendations from the previous audit have been actioned where these remain appropriate. Heathlands will be re-audited during quarter 1 of 2015/16.</p>
CORPORATE SERVICES	<p><u>COUNCIL WIDE PROCUREMENT</u></p> <p>A limited assurance opinion was given due to a priority 1 recommendation in respect of waivers to Contract Standing Orders. The issues identified were approval of waivers being sought retrospectively and lack of sufficient evidence to support the justification that current contractors were the sole provider of the service. Action is being taken to remind officers to submit waivers on a timely basis to avoid the need for retrospective approval and to provide better supporting evidence for waivers submitted for approval.</p> <p><u>SURVEYORS SERVICES</u></p>

	<p>One priority 1 recommendation was raised which resulted in a limited assurance opinion. The priority 1 recommendation was in respect of delays in checking the quality of work undertaken by the reactive maintenance contractor and the amounts billed together with delays in billing by the contractor and the level of errors on bills raised. A review carried out by external consultants has identified areas for improvement in processes and a project is already scheduled to commence in January 2015 to implement improvements to these processes.</p> <p><u>DEBTORS</u></p> <p>A limited assurance opinion was given on this audit due to a priority one recommendation being raised as the auditor identified that there was no segregation of duties within the debtors IT system for the write off of debts. The Chief Technical Accountant have now implemented a compensating control to address this weakness.</p>
CHILDREN, YOUNG PEOPLE AND LEARNING	<p><u>WARFIELD SCHOOL</u></p> <p>A limited opinion was given due to the two priority one recommendations raised and overall weaknesses in the control environment. The first priority one recommendation was raised in response to weaknesses in the bank reconciliation process. The second priority one recommendation was raised to address the need to clarify the status of the WASPS nursery going forward and to address issues around identifying the full costs attributable to the nursery and review accounting procedures and processes for WASPS. Senior officers from the Education Authority are advising the School on the arrangements with WASPS and will be providing support to address weaknesses in the control environment.</p> <p><u>ST MICHAEL'S EASTHAMPSTEAD</u></p> <p>A limited opinion was given due to a priority one recommendation raised in respect of the private fund not being audited for three years. The School has advised that arrangements to audit the fund are now in place. The School will be re-audited next year.</p> <p><u>DIRECT PAYMENTS</u></p> <p>A limited assurance opinion was given on this audit due to a priority one recommendation to address weaknesses in financial monitoring of direct payments and the need to improve follow up of missing information and investigation of unreconciled transactions. Senior managers are now introducing a financial monitoring checklist to ensure that sufficient checks are undertaken in future.</p>

Quality Assurance and Improvement Programme

- 3.5 As shown above in section 3.2, client satisfaction levels have improved from 97% to 100% for the year to date. All grants were certified in accordance with Government departments' deadlines. In 61% of cases internal audit providers delivered the first draft report within 15 days of the exit meeting.

4. RISK MANAGEMENT

- 4.1 Between April and December 2014, the Strategic Risk Register was reviewed three times by the Strategic Risk Management Group (SRMG) and twice by the Corporate Management Team (CMT) and reported to the Governance and Audit Committee on 14th July 2014. A further update to the Governance and Audit Committee is included on this agenda. A review of progress on actions to address strategic risks was carried out in December 2014. Directorate risk registers continue to be monitored regularly at Departmental Management Teams.

5. COUNTER FRAUD ACTIVITIES

National Fraud Initiative (NFI)

- 5.1 The NFI is a biennial data matching exercise first introduced in 1996 and conducted by the Audit Commission to assist in the prevention and detection of fraud and error in public bodies. Bracknell Forest Council is obliged to participate in this. Data was submitted to the Audit Commission in October 2014 and it is expected that matches for investigation will start coming through in quarter 4 of 2014/15.

Single Person Discount

- 5.2 In order to identify potential mis-claiming of Council Tax Single Person Discount (SPD), the Revenues team procured external consultants to carry out a data matching exercise. The exercise was undertaken during quarter 3 and matched credit records to households claiming SPD to highlight cases where there appeared to be more than one occupant at the property. In such cases, letters were sent to the recipient of the SPD to query if they were the sole occupier. The exercise has resulted in 239 households confirming that they were no longer entitled to receive the discount which resulted in a reduction of £84k in SPD awards. In addition, 230 households did not respond as requested despite reminders and therefore their SPD has been cancelled. It is anticipated that some of these cases will now re-claim the discount so the final figure for SPD award reduction in respect of these cases is not yet known.

Other Counter Fraud Initiatives

- 5.3 During quarter 2 the Council participated in two successful joint funding bids for counter fraud grant monies. One bid was led by Reading Borough Council in partnership with Civica and a number of housing associations for data matching for counter fraud purposes and the other was led by Pendle Borough Council and is a partnership consortium between 13 LA members and 2 private sector suppliers for targeting fraud and error within the Council Tax Reduction (CTR) caseloads of Local Authorities by applying data matching and analytics. We are currently awaiting information from the lead authorities on how these initiatives will be progressed.

Benefits Investigations

- 5.4 Up to 30th November 2014, the Council had a Benefits Investigation Team which was located within the Benefits section of Housing in Adult Social Care, Housing and Health. The Team consisted of a Senior Investigations Officer and one Investigation Officer. During the investigation of claims, Officers interviewed witnesses, took statements, carried out surveillance and interviewed under caution with a view to taking prosecution action. All cases were investigated, however many would prove to

be unfounded and some may have created an overpayment as a result of an error which would have been recovered through normal recovery procedures.

- 5.5 During 2014/15, the Team received 432 referrals. As a result of work undertaken by the Investigation Team, the sanctions applied during this period were 15 Formal Cautions, 10 Administration Penalties (a 30% penalty on top of overpaid benefit) and 2 successful prosecutions. The sanctions which resulted were from investigations initiated as follows:
- 22 referrals from the benefits team;
 - 4 Housing Benefit Matching Service; and
 - 1 referral from Council Tax
- 5.6 The total amount of overpayments including cases treated as incorrect benefit only and sanctions cases was £125,974.02. The total amount of sanction only overpayments was £86,294.74. The financial gain to the Council from Administration Penalties was £12,137.26.
- 5.7 On 1st December 2014, the benefit fraud investigators transferred to the Single Fraud Investigation Service (SFIS) within the Department for Work and Pensions as part of the national government programme of centralising the investigation of welfare benefit fraud. Going forward, Bracknell Forest fraud cases for housing benefit will be investigated by SFIS. At this stage the full impact of SFIS is unclear. SFIS may set de-minimus levels for fraud investigation which could mean that potential frauds that would have been investigated by our in-house team will not be pursued by SFIS. Authorities will refer potential fraud cases that they become aware of to SFIS for investigation and will be required to provide information to support these investigations as SFIS will have no access to our benefit records. It is anticipated that local authorities will be expected to carry out an initial review and sift of NFI data matches to identify cases for investigation by SFIS.

Other Potential Irregularities

- 5.8 During the period April to December 2014, the Royal Borough of Windsor and Maidenhead (RBWM) detected 2 cases of misuse of Bracknell Forest blue badges in their borough. In both cases these were confiscated and returned to Bracknell Forest Council. In one case no further action was taken and in the second case the individual was given a caution to conclude the matter with RBWM.
- 5.10 In September, a potential issue was raised with refunds at one of the outlying sites. This was investigated in the relevant department and the Investigating Officer found no evidence of any irregularity.

APPENDIX A**2013/14 AUDITS**

* draft report produced within 15 working days of exit meeting to discuss audit findings

Audit	Start Date	Date Draft Report	Key Indicator Met *	Assurance Level				Recommendations			Status	
				Significant	Satisfactory	Limited	None	1	2	3		
Children, Young People and Learning												
SEN	27/03/14	03/07/14	Yes		✓				3	2	Final	
Corporate Services												
Council Wide Procurement	22/04/14	12/6/14	Yes				✓		1	7	1	Final

2014/15 AUDITS

Audit	Start Date	Date Draft Report	Key Indicator Met	Assurance Level				Recommendations			Status		
				Significant	Satisfactory	Limited	None	1	2	3			
Grants													
Better Bus	18/3/14	21/3/14	N/A	N/A – Grant certification						Final			
Bus Subsidy Grant	01/07/14	17/07/14	N/A	N/A – Grant certification						Final			
IER	12/06/14	23/06/14	N/A	N/A – Grant certification						Final			
Troubled Families Grant (May)	13/05/14	15/05/14	N/A	N/A – Grant certification						Final			
Sustainable Transport Grant	03/07/14	17/07/14	N/A	N/A – Grant certification						Final			
Pinch Point	14/07/14	17/07/14	N/A	N/A – Grant certification						Final			
Public Health	25/4/14	10/7/14	N/A	N/A – Grant certification						Final			
Troubled Families (August)	10/07/14	13/08/14	N/A	N/A – Grant certification						Final			

Unrestricted

Audit	Start Date	Date Draft Report	Key Indicator Met	Assurance Level				Recommendations Priority			Status
				Significant	Satisfactory	Limited	None	1	2	3	
Local Block Funding and Highways and Integrated Transport	17/07/14	2/9/14	N/A	N/A – Grant certification							Final
Bus Operators Grant	11/12/14		N/A	N/A – Grant certification							Final
Green Deal											Not due - Qtr 4 audit
Council Wide Audits											
Corporate Charge Cards											Not due - Qtr 4 audit
Officers expenses	19/08/14	18/9/14	Yes		✓				2	3	Final
Procurement											Deferred to qtr 1 of 2015/16
DBS checks excl schools	09/06/14	3/7/14	Yes		✓				2	1	Final
Hospitality Registers	4/8/14	8/10/14	Yes		✓				3	2	Final
Capital & Fixed Assets	24/11/14										Work in progress
IT Audits											
PCI compliance	17/11/14										Work in progress
PSN											Not due - Qtr 4 audit
Mobile devices	1/9/14	16/10/14	No		✓				6	2	Final
Network Infrastructure											Not due - Qtr 4 audit
Remote working	12/9/14	22/10/14	No		✓				1		Draft issued
ICT Helpdesk	26/8/14	12/11/14	No								Draft received for review
School Back-Ups	24/4/14	18/6/14	Yes		✓				4		Final
Library IT System											Not due - Qtr 4 audit

Audit	Start Date	Date Draft Report	Key Indicator Met	Assurance Level				Recommendations Priority			Status
				Significant	Satisfactory	Limited	None	1	2	3	
E+ card and system (IT/ general audit)											Not due - Qtr 4 audit
Leisure Management System											Deferred to 2015/16 as a new system is now being procured.
Information security in schools follow up											Not due - Qtr 4 audit
Corporate Services											
Budgets/Budgetary Control	8/10/14	27/11/14	No		✓				2	1	Draft issued
Cash Management	22/9/14	16/10/14	Yes		✓				1		Final
Treasury Management	15/07/14	4/8/14	Yes		✓				1		Final
Creditors	13/10/14	11/12/14	Yes								Draft received for review
Debtors	15/9/14	16/10/14	No			✓		1	7	3	Draft issued
Main Accounting inc recs	29/09/14	17/11/14	No		✓						Final
Payroll	30/10/14		Yes								Work in progress
NHS Pension Scheme Assurance	31/3/14	28/4/14	N/A	N/A – Assurance memo provided in respect of NHS Pensions							Final
Insurance	23/06/14	29/07/14			✓				1	2	Final
Members Allowances & Expenses	17/11/14										Work in progress
Data protection	11/9/14	30/9/14	Yes		✓				3	2	Final
Surveying Services	3/9/14	16/10/14	Yes			✓		1	4		Final
Commercial Properties inc. Rents and estates	12/05/14	14/07/14	No		✓				2	3	Final

Unrestricted

Audit	Start Date	Date Draft Report	Key Indicator Met	Assurance Level				Recommendations Priority			Status
				Significant	Satisfactory	Limited	None	1	2	3	
management											
Council Tax	30/9/14	14/10/14	Yes		✓				5	3	Final
Business Rates	3/11/14	15/12/14	Yes								Draft received for review
Health & Safety	9/6/14	1/8/14	Yes		✓				6		Final
Children, Young People and Learning School Audits											
School Funding	23/6/14	20/6/14	Yes	✓							Final
Ascot Heath CE Junior											Not due - Qtr 4 audit
Birch Hill Primary											Not due - Qtr 4 audit
College Town Infants											Not due - Qtr 4 audit
College Town Junior											Not due - Qtr 4 audit
Crownwood Primary											Not due - Qtr 4 audit
Foxhill Primary	05/06/14	03/07/14	Yes		✓				7	11	Final
Garth Hill											Not due - Qtr 4 audit
Harmanswater Primary											Not due - Qtr 4 audit
Holly Spring Junior											Deferred to Qtr 4
Owlsmoor Primary											Deferred to Qtr 4
St Joseph's RC Primary											Deferred to Qtr 4
St Michael's Sandhurst CE Primary	19/05/14	03/07/14	No		✓				4	9	Final
St Michael's E'hampstead CE Primary	13/10/14	4/11/14	Yes			✓		1	7	2	Draft issued
Warfield CE Primary	09/06/14	18/9/14	No			✓		2	5	6	Draft

Audit	Start Date	Date Draft Report	Key Indicator Met	Assurance Level				Recommendations Priority			Status
				Significant	Satisfactory	Limited	None	1	2	3	
											issued
Wildmoor Heath											Not due - Qtr 4 audit
Children, Young People and Learning Cross-Cutting School Audits											
Procurement in Schools follow up											Not due - Qtr 4 audit
Children, Young People and Learning – Other Audits											
Life Long Learning	23/06/14	11/07/14	Yes	Follow up of previous audit no opinion given						1	Final
Pupil referral services excl PRU	22/09/14	18/11/14	Yes								Work in progress
SEGL											Audit no longer required
After/Leaving Care Team	21/02/14	17/4/14	Yes		✓				4	2	Final
Direct Payments	16/9/14	14/10/14	Yes			✓		1	4		Draft issued
Larchwood Unit	7/10/14	13/10/14	Yes		✓				6	2	Final
Monies in Trust Looked After Children											Audit no longer required
Environment, Culture and Communities											
Reconciliations	15/07/14										Not due - Qtr 4 audit
Library Central processes(incl stock control)											Not due - Qtr 4 audit
Coral Reef	30/09/14	2/12/14	No								Draft received for review
Easthampstead Park Conference Centre	4/12/14										Work in progress
Leisure cash spot checks											Not due - Qtr 4 audit
S106/ CIL											Not due -

Unrestricted

Audit	Start Date	Date Draft Report	Key Indicator Met	Assurance Level				Recommendations Priority			Status
				Significant	Satisfactory	Limited	None	1	2	3	
											Qtr 4 audit
Public Transport (following Bus Strategy)	9/11/14	19/12/14	Yes		✓				2		Draft issued
Building control and land charges	22/04/14	16/9/14	No		✓				3	3	Final
Car Parking- follow up	22/04/14	20/06/14	Yes	Follow up of previous limited assurance no opinion given						1	Final
Cemetery & Crematorium	06/05/14	20/8/14	No		✓				3	2	Final
Highways Management											Not due - Qtr 4 audit
Waste Collection	28/08/14	22/10/14	No		✓				8	3	Not due - Qtr 4 audit
Open for Business – Regulatory Services											Not due - Qtr 4 audit
Adult Social Care, Housing and Health											
Performance Financial Assessments & Benefit Checks	30/06/14	1/10/14	No		✓				2	2	Final
Controcc payments and receipts											Not due - Qtr 4 audit
Deputyships & Appointees											Not due - Qtr 4 audit
Older people and long term conditions											Not due - Qtr 4 audit
Heathlands – residential & day services	02/06/14	04/08/14	Yes			✓		4	7	1	Final
Bridgewell Unit	24/11/14										Work in progress
Direct payments	1/12/14										Work in progress
Learning Disability Provider Service	23/06/14	08/08/14	No		✓				1	8	Final

Unrestricted

Audit	Start Date	Date Draft Report	Key Indicator Met	Assurance Level				Recommendations Priority			Status
				Significant	Satisfactory	Limited	None	1	2	3	
Housing and Council Tax Benefits	1/12/14										Work in progress
Housing Applications etc.	4/8/14	26/9/14	No		✓				6		Draft issued
Housing Rents and Deposits	12/05/14	8/12/14	No								Work in progress
Forestcare	09/06/14	07/08/14	No		✓				6	2	Final



BRACKNELL FOREST COUNCIL

INTERNAL AUDIT CHARTER

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VERSION	DATE APPROVED BY GOVERNANCE AND AUDIT COMMITTEE	DATE OF NEXT REVIEW
Version 1		

Introduction

A professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector. With effect from 1st April 2013, a common set of Public Sector Internal Audit Standards (PSIAS) were introduced which are applicable to and mandatory for all UK public sector organisations including local authorities. The PSIAS applies to all internal audit service providers, whether in house, shared services or outsourced. The PSIAS are based on the following mandatory elements of the Institute of Internal Auditors International Practices Framework:

- Definition of internal auditing
- Code of ethics; and
- International Standards for the Professional Practice of Internal Auditing.

The purpose of the PSIAS is to:

- Define the nature of internal auditing within the public sector
- Set basic principles for carrying out the internal audit in the UK public sector
- Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; and
- Establish the basis for the evaluation of internal audit performance and to drive improvement planning.

PSIAS require the Council to formally define the purpose, authority and responsibility of internal audit in an internal audit charter which must be presented to and approved by senior management and “the Board”. The role of “the Board” is largely undertaken by the Governance and Audit Committee at Bracknell Forest Council. The Charter will be reviewed every 3 years.

Statutory and Regulatory Basis for Internal Audit

The statutory requirement for an Internal Audit function is contained in Regulation 6 of the Accounts and Audit Regulations 2011 which requires the Council to **“undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control”**.

Internal Audit will govern itself by adherence to Public Sector Internal Audit Standards (PSIAS) which are mandatory and are deemed to be “the proper practices” for the purposes of compliance with the Accounts and Audit Regulations.

Internal Audit assists the Section 151 Officer (the Borough Treasurer) in discharging his delegated responsibilities under Section 151 of the Local Government Act 1972 which requires the Council to “make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs”.

The Council’s Financial Regulations set out officer responsibilities in respect of Internal Audit. See Appendix 1.

Purpose, Authority and Responsibility

Internal Audit’s Purpose, Authority and Responsibility

The Standards define Internal Auditing as an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. The scope of Internal Audit’s remit extends to the entire control environment of the organisation. It is the responsibility

of Internal Audit to review, appraise and report upon the soundness, adequacy and application of internal control, risk management and corporate governance.

In order to meet its responsibilities, Internal Audit will be given right of access to all records, assets, personnel and premises, including those of partner organisations, as it considers necessary to fulfil those responsibilities. This right is established in the Council's Financial Regulations within the Constitution and also set out in statute under the Accounts and Audit Regulations which state that

***"Any officer or member of a relevant body must, if the body requires—
(a) make available such documents and records as appear to that body to be necessary for the purposes of the audit; and
(b) supply the body with such information and explanation as that body considers necessary for that purpose."***

Independence and Objectivity

As required by the PSIAS, the internal audit activity is independent and internal auditors are objective in performing their work. Threats to independence and objectivity are managed at the organisational, functional, engagement and individual auditor level.

Organisational Independence

Organisational independence is achieved through the Head of Audit and Risk Management reporting directly to the Governance and Audit Committee acting as "the Board" for the purposes of PSIAS which includes the Committee:-

- approving the Internal Audit Charter
- approving the Annual Internal Audit Plan
- receiving reports from the Head of Audit and Risk Management on performance against the Plan
- making appropriate enquiries of management and the Head of Audit and Risk Management to ensure that there are factors which could have compromise the independence of internal audit.

Status of the Chief Internal Auditor

The Internal Audit Team sits within the Finance section in Corporate Services. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the PSIAS state that the Head of Audit should have direct and unrestricted access to senior management and "the board" and must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities.

The Head of Audit and Risk Management reports to the Borough Treasurer who acts as Section 151 officer and is a member of the Council's Corporate Management Team. The Head of Audit and Risk Management has unrestricted access to:

- the Chief Executive,
- the Monitoring Officer
- the Corporate Management Team
- the Governance and Audit Committee
- the Chair of the Governance and Audit Committee and/or other Members as necessary
- all levels of management and
- other Council employees as necessary

The Head of Audit and Risk Management meets formally with the Chief Executive on a quarterly basis to discuss progress on the Internal Audit Plan and emerging issues.

Independence of Auditors

Individual auditors must have an impartial, unbiased attitude and avoid any Conflict of Interest. Individual auditors will be required to conform to the Chartered Institute of Internal Auditors (CIIA's) Code of Ethics and relevant requirements of other professional bodies such as the ICAEW or CIPFA of which they may be a member. In addition to this, all Internal Auditors will have regard to the Standards of Public Life's "Seven Principles of Public Life". The Head of Audit and Risk Management will seek assurance from outsourced providers that they have ensured that their staff are complying with the Code of Ethics and have disclosed any conflict of interest.

The Head of Audit and Risk Management and Internal Audit Contract Manager will sign an annual declaration to confirm that they will work in compliance with the Code of Ethics as well as Council's standards and policies such as the Council's Codes of Conduct. Where potential areas of conflict may arise during the year, they will be required to disclose this.

Impairment to Independence or Objectivity

The Head of Audit and Risk Management will report annually to the Section 151 Officer (Borough Treasurer) and the Governance and Audit Committee that independence and objectivity has been maintained. If this is not the case, disclosure will be made. Examples of where this might arise include potential conflicts of interest or restricted access to records. Audit engagements covering insurance and risk management, for which the Head of Audit and Risk Management has functional responsibility will be overseen by the Borough Treasurer.

Internal Audit Proficiency and Due Professional Care

In accordance with the PSIAS, audit engagements will be performed with proficiency and due care.

Proficiency

Internal auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills and other competencies needed to perform its responsibilities. At Bracknell Forest Council this is achieved through the outsourcing of audits which enables specific areas of expertise to be bought in as required e.g. IT, tax and contract audit.

The qualification, skills and competencies required for the Head of Audit and Risk Management and the Internal Audit Contract Manager are set out in the approved job descriptions and person specifications. These satisfy the PSIAS requirement that the Head of Audit and Risk Management must hold a professional qualification (CIIA, CCAB or equivalent) and be suitably experienced. A robust internal appraisal process is in place and in line with Council policy and the Standards, the in-house team will be assessed against the set predetermined competencies and annual objectives. Development and training plans will be regularly reviewed, monitored and agreed. This process is informed by the records of continual professional development maintained in line with professional body requirements.

The specification for the internal audit contract and the S113 agreement with Reading and Wokingham Borough Council for the sharing of internal audit services require our internal audit providers to have appropriate training programmes in place to ensure auditors have the appropriate skills to deliver audits. Proficiency of individual auditors for each provider will be monitored through quality reviews of all reports and a sample of working papers by the Head of Audit and Risk Management and Internal Audit Contract Manager.

Due Professional Care

Internal auditors will exercise due professional care by considering the:

- Extent of work needed to achieve the engagement's objectives;

- Relative complexity, materiality or significance of matters to which assurance procedures are applied;
- Adequacy and effectiveness of governance, risk management and control processes;
- Probability of significant errors, fraud, or non-compliance; and
- Cost of assurance in relation to potential benefits.

In exercising due professional care, internal auditors will be alert to significant risks that may affect the objectives.

The internal audit service providers' conformance with standards for due professional care is ensured through the specification for the internal audit contract and the S113 agreement and through the quality control checking of all reports and a sample of audit working paper files.

Nature of Work

Internal audit activity evaluates and contributes to the improvement of governance, risk management and control processes as required under the PSIAS using a systematic and disciplined approach.

Governance

Internal Audit will assess governance processes and make appropriate recommendations for improving these processes in:

- promoting appropriate ethics and values within the organisation;
- ensuring effective organisational performance management and accountability;
- communicating risk and control information to appropriate areas of the organisation; and
- coordinating the activities of and communicating information among Internal Audit, senior management, the external auditors and the Governance and Audit Committee.

Internal Audit focus may include coverage of ethics and information governance of the organisation as appropriate.

Risk Management

Internal Audit will evaluate the effectiveness and contribute to the improvement of risk management processes. Internal Audit activity will evaluate risk exposures relating to the organisation's governance, operations and information systems regarding the:

- achievement of the organisation's strategic objectives;
- reliability and integrity of financial and operational information;
- effectiveness and efficiency of operations and programmes;
- safeguarding of assets; and
- compliance with laws, regulations, policies, procedures and contracts.

Control

Internal Audit assists the organisation in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement. It evaluates the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems regarding the:

- achievement of the organisation's strategic objectives;
- reliability and integrity of financial and operational information;
- effectiveness and efficiency of operations and programmes;
- safeguarding of assets; and
- compliance with laws, regulations, policies, procedures and contracts.

Fraud

Responsibility for preventing and detecting fraud rests with managers. Whilst it is not a primary role of Internal Audit to detect fraud, Audit does have a role in providing an independent assurance on the effectiveness of the processes put in place by management to manage the risk of fraud.

Internal Audit will

- consider fraud risk at every audit as appropriate;
- review fraud prevention controls and detection processes put in place by management; and
- make recommendations to improve processes.

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The Council's Financial Regulations require that Directors inform the Borough Treasurer or the Head of Audit and Risk Management of all suspected irregularities. The Borough Treasurer will decide on the arrangements for the investigation of such irregularities and will inform the Head of Audit and Risk Management of any significant irregularities. Internal Audit can investigate potential irregularities and respond to whistle blowers if requested to do so.

Audit Delivery

Planning

The Head of Audit and Risk Management develops a risk based audit plan, which can be updated to reflect changing risks and priorities of the organisation, to enable the production of the annual internal audit opinion.

In order to prepare this risk based audit plan, the Head of Audit and Risk Management:

- reviews all risk registers;
- meets with all senior managers and seeks input from internal audit providers and external audit;
- considers national issues e.g. new legislation, economic climate;
- considers local issues e.g. service plans, on-going projects, changes to IT systems;
- reviews budgets and outturns to identify areas of high spend/income;
- considers risks arising from changes to key personnel;
- considers elapsed time since the last audit;
- considers potential fraud risks;
- considers assurances provided by other bodies e.g. inspections;
- identifies grants requiring Internal Audit certification; and
- assesses the time required to deliver each audit and the skills and expertise needed

Resourcing

The PSIAS state that the Head of Audit must ensure that internal audit resources are appropriate, sufficient and effectively deployed.

The Head of Audit and Risk Management will quantify resources and identify the mix of knowledge, skills and other competencies required to deliver the Annual Audit Plan. Delivery of the majority of audits is outsourced enabling the Council to manage resources effectively by buying in the required level of days and relevant audit specialisms needed in any given year to deliver the approved Plan. Mazars Public Sector Internal Audit Limited is the Council's main internal audit provider under a contract procured in line with the Public Contracts Regulations and Council's Financial Regulations and Contract Standing Orders. In addition, around one third of audits are delivered by Wokingham and Reading Borough Council's internal audit teams under an agreement under Section 113 of the Local Government Act 1972 which permits local authorities to share staffing resources. A small number of audits are undertaken in-house by the Internal Audit Contract Manager.

The Head of Audit and Risk Management will explain to management, the Section 151 Officer and the Governance and Audit Committee how the internal audit resource requirements set out in Annual Audit Plan have been assessed. Where the Head of Audit and Risk Management has concerns over the level of financial budget allocated and is of the view that this may impact

adversely on the provision of the annual internal audit opinion, the consequences of this will be brought to the attention of the Section 151 Officer and Governance and Audit Committee. If necessary, the Head of Audit and Risk Management will agree additional resources with the Section 151 Officer.

Engagement Planning

For each engagement, a terms of reference (tor) will be prepared, discussed and agreed with relevant managers. The tor will establish the objectives, scope and timing for the audit assignment and its resources and reporting requirements. In planning the audit work, the auditor will consider the objectives of the activity to be audited and significant risks to the activity. A risk based audit approach will be taken to:

- consider the adequacy of controls in place to ensure objectives are achieved;
- verify compliance with those controls;
- assess the risk of significant errors and/or fraud; and
- identify need /opportunities for improvement.

Performing the Engagement

Auditors will identify, analyse and evaluate sufficient relevant and reliable information to achieve the engagement's objectives. Auditors will document relevant information to support conclusion's and audit engagement results. All audits, both internally and externally delivered, will be subject to appropriate review processes to ensure satisfactory standards of work are met. Working papers evidencing audits will be held in compliance with the Councils' Record Retention and Destruction Schedule.

Communicating Results of Individual Audits

The results of individual engagements will be discussed at an exit meeting with the auditee before being formally communicated in an audit report. The audit report will include the findings, conclusions, recommendations, management's responses with agreed actions and where appropriate will contain an Internal Audit opinion.

Table 1 provides the **levels of opinion** that can be provided with a short description;

Table 1

	Significant Assurance	There is a sound system of internal controls to meet the system objectives and testing performed indicates that controls tested are consistently complied with.
	Satisfactory Assurance	There is basically a sound system of internal controls although there are some minor weaknesses in controls and/or there is evidence that the level of non-compliance may put some minor systems objectives at risk.
	Limited Assurance	There are some weaknesses in the adequacy of the internal control system which put the systems objectives at risk and/or the level of compliance or noncompliance puts some of the systems objectives at risk.
	No Assurance	Control is weak leaving the system open to significant error or abuse and/or there is significant non-compliance with basic controls.

Our **recommendations** will be categorised according to their level of priority. Table 2 provides a short description of the 3 priority levels applied.

Table 2

High	Priority 1	Fundamental weakness in the design of controls or consistent non-compliance with controls that puts the achievement of systems objectives at risk (leads automatically to either a Limited or No Assurance opinion)
Medium	Priority 2	Weakness in the design of controls or inconsistency in compliance with controls puts the achievement of systems objectives at risk
Low	Priority 3	Recommended best practice to improve overall control.

Overall Annual Opinion

The Head of Audit and Risk Management will deliver an annual internal audit opinion and report that can be used by the organisation to inform its annual governance statement. The annual report will include:

- the opinion which will cover controls, risk management and governance;
- a summary of the work that supports the opinion; and
- a statement on conformance with the PSIAS and the results of the quality assurance and improvement programme.

The report will identify:

- the scope including time period to which the opinion pertains;
- any scope limitations
- consideration of all related projects including the reliance on other assurance providers;
- the control framework used as a basis for the overall opinion; and
- the overall opinion reached with reasons given if an unfavourable overall opinion is given.

Quality Assurance and Improvement Programme

PSIAS require that a Quality Assurance and Improvement Programme (QAIP) is put in place. A QAIP has been developed to enable the Head of Audit and Risk Management to assess the Internal Audit's activity's conformance to the PSIAS and compliance with the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. The QAIP must include both internal and external assessment and will form part of the annual assessment of the effectiveness of internal audit which is included in the Head of Audit and Risk Management's annual report. Where instances of non-conformances to the PSIAS are identified by the QAIP process they will be reported to the Section 151 Officer, the Corporate Management Team and the Governance and Audit Committee through the annual report. Any significant deviations will be detailed within the Annual Governance Statement.

Internal Assessment

PSIAS require that the internal assessment must include periodic self-assessment on compliance with the Standards and on-going monitoring of performance of the internal audit activity.

Periodic Self -Assessment

The Head of Audit and Risk Management completed the CIPFA checklist on conformance during 2013/14 following the introduction of the new standards and the outcome was reported to the Governance and Audit Committee. This checklist will be updated annually and reported to the Governance and Audit Committee in the Head of Audit and Risk Management's Annual Report.

On-Going Monitoring

On-going monitoring includes:

- clear performance indicators set out in the contract/agreement with each external audit provider. These are monitored quarterly;
- monthly contract monitoring meetings with the main provider together with quarterly reports and quarterly meetings with the Managing Director;
- quarterly meetings with secondary providers;
- reporting delivery against the Annual Audit Plan to the Governance and Audit Committee twice a year together with performance against the key indicator (delivery of draft reports within 15 days of the exit meeting);
- the Head of Audit and Risk Management undertaking formal quality review of reports and working papers for in-house work carried out by the Internal Audit Contract Manager;
- formal quality review undertaken by Head of Audit and Risk Management/Internal Audit Contract Manager on all reports and a sample of audit working paper files (including all key financial systems) for work outsourced to external providers;
- client questionnaires issued for completion to lead auditee with draft report. Questionnaires are returned to the client side and fed back to the relevant audit service provider for that audit. Where the auditee did not find the audit satisfactory, the provider is required to investigate and respond to the client side on the points raised. Client questionnaires are reported back at summary level to Governance and Audit Committee twice a year.

External Assessment

In compliance with the PSAIS, external assessment will be carried out at least once every five years. The preferred method would be an independent validation from a peer review of the internal self-assessment, providing there is no conflict of interest and impairment to objectivity in this arrangement. This arrangement and scope of any external assessment will be agreed with the Section 151 Officer and the Governance and Audit Committee.

EXTRACT FROM APPNDIX C OF BRACKNELL FOREST COUNCIL'S FINANCIAL REGULATIONS

3.3 INTERNAL AUDIT

Why is this important?

The requirement for an internal audit function for local authorities is implied by Section 151 of the Local Government Act 1972, which requires that authorities "make arrangements for the proper administration of their financial affairs". The Accounts and Audit (England) Regulations 2011 more specifically require that a "relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control".

Accordingly, internal audit is an independent and objective appraisal function established by the authority for reviewing the system of internal control. It examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.

Key controls

The key controls for internal audit are:

- (a) that it is independent in its planning and operation
- (b) the Head of Audit and Risk Management has direct access to the Chief Executive, all levels of management and directly to elected Members
- (c) the internal auditors comply with all relevant regulations and professional guidance.

Responsibilities of the Borough Treasurer

To ensure that internal auditors have the authority to:

- (a) access authority premises at reasonable times
- (b) access all assets, records, documents, correspondence and control systems
- (c) receive any information and explanation considered necessary concerning any matter under consideration
- (d) require any employee of the authority to account for cash, stores or any other authority asset under his or her control
- (e) access records belonging to third parties, such as contractors, when required
- (f) directly access the Chief Executive, the Executive and Governance and Audit Committee.

To prepare annual audit plans, which take account of the characteristics and relative risks of the activities involved for approval by the Governance and Audit Committee.

To ensure that effective procedures are in place to investigate promptly any fraud or irregularity.

Ensure that any person engaged in internal audit work is aware that they must maintain confidentiality regarding the operations and management information relating to the part of the Council being reviewed or investigated.

Responsibilities of Directors

To ensure that internal auditors are given access at all times to premises, personnel, documents and assets that the auditors consider necessary for the purposes of their work.

To ensure that auditors are provided with all information and explanations that they need in the course of their work to enable them to draw appropriate conclusions.

To ensure that Internal Auditors are not misled or provided incorrect information.

To consider and respond promptly to recommendations in audit reports.

To ensure that any agreed actions arising from audit recommendations are carried out in a timely and efficient fashion.

To notify the Borough Treasurer immediately of any suspected fraud, theft, irregularity, improper use or misappropriation of the authority's property or resources. Pending investigation and reporting, the Director should take all necessary steps to prevent further loss and to secure records and documentation against removal or alteration.

To ensure that new systems for maintaining financial records, or records of assets, or changes to such systems, are discussed with and agreed by the Head of Audit and Risk Management prior to implementation.

Agenda Item 14

By virtue of
Regulation 4 of the Local Authorities (Executive
Arrangements) (Access to Information) (England)
Regulations 2012.

Document is Restricted

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