

NOTICE OF MEETING

Governance & Audit Committee

Wednesday 27 January 2016, 7.30 pm

Council Chamber, Fourth Floor, Easthampstead House, Bracknell

To: Governance & Audit Committee

Councillor Allen (Chairman), Councillor King OBE (Vice-Chairman), Councillors Heydon, McLean, Ms Miller, Mrs Temperton, Thompson and Worrall

Independent Member

Gordon Anderson JP

cc: Substitute Members of the Committee

Councillors Mrs Hayes MBE, Hill, Leake, McCracken and Mrs McKenzie-Boyle

ALISON SANDERS
Director of Corporate Services

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If you require further information, please contact: Katharine Simpson
Telephone: 01344 352308
Email: katharine.simpson@bracknell-forest.gov.uk
Published: 18 January 2016



Governance & Audit Committee
Wednesday 27 January 2016, 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 - 23 September 2015**

To approve as a correct record the minutes of the meetings of the Governance and Audit Committee held on 23 September 2015.

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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 consider a report from the External Auditors setting out the Audit Progress Report and the Certification of Claims and Returns Annual Report 2014/15.

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6. **Annual Audit Letter 2014/15**

To receive and note the Annual Audit letter for 2014/15.

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7. **Internal Audit Assurance Report**
To consider a report summarising Internal Audit activity during the period April to December 2015. 45 - 68
8. **Treasury Management Report 2016/17 and Mid Year Review**
To consider a report seeking comment on the Council's Treasury Management Report before it is submitted to Council for approval. 69 - 96
9. **Change in Accounting Policy for Highways Network Assets**
To consider a report providing an overview of the impact on the Council of the changing valuation basis of the Highways Network Asset (formerly referred to as Infrastructure Assets). 97 - 102

Date of Next Meeting

The next scheduled meeting of the Governance and Audit Committee will take place on Wednesday 30 March 2016 at 7.30pm

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GOVERNANCE & AUDIT COMMITTEE
23 SEPTEMBER 2015
7.30 - 8.35 PM



Bracknell Forest Borough Council:

Councillors Allen (Chairman), King OBE (Vice-Chairman), Heydon, McLean, Ms Miller, Thompson and Worrall

Apologies for absence were received from:

Councillors Mrs Temperton
Gordon Anderson JP

12. Declarations of Interest

There were no declarations of interest.

13. Minutes - 24 June 2015

RESOLVED that the minutes of the meeting of the Committee held on 24 June 2015 be approved as a correct record and signed by the Chairman.

14. Urgent Items of Business

There were no items of urgent business.

15. External Audit: Audit Results

Helen Thompson of Ernst & Young introduced the Audit Results Report for the year ended 31 March 2015, which summarised the work carried out to discharge the statutory external audit responsibilities.

The 2014/15 audit was substantially complete and the Auditors expected to issue an unqualified opinion on the financial statements. No uncorrected misstatements had been identified and the audit results overall demonstrated that the Council had prepared its financial statements to a high standard.

Two significant audit risks had been identified during the planning phase of the audit: a risk of management override and a risk associated with the valuation of property, plant and equipment. Within the audit procedures, the controls relevant to each risk had been assessed and then tested, which had led to assurance being gained.

The Committee expressed its satisfaction with the report.

RESOLVED that:

- 1 The Audit Results Report 2014/15 be noted.
- 2 The Officer team be thanked and congratulated for their efficient and accurate preparation of the financial statements.

- 3 Helen Thompson (who had indicated that she would later be moving after four years of dealing with the Authority, in accordance with Ernst & Young rotation policy) be thanked for her work at Bracknell Forest.

16. **Financial Statements 2014/15**

The Committee considered a report of the Borough Treasurer presenting the draft 2014/15 Financial Statements, subjected to audit by the External Auditors, Ernst & Young. The report summarised the key elements within the accounts and the findings of the audit.

The Committee noted that this was the seventeenth consecutive year that the Council had spent within its budget. The actual outturn for the General Fund showed an underspend against budget £3.771m. This had resulted in a sum of £1.147m being returned to the General Fund rather than a withdrawal from it to support the 2014/15 budget. The report set out the most significant variances from the budget, the majority of which had been one-off items.

The General Fund balance as at 31 March 2015 amounted to £10.961m. Earmarked Reserves, set aside for specific purposes such as future spending plans or to mitigate risk, had been increased to £30.289m.

Members asked questions and received clarification on a number of points of detail in the Financial Statements.

RESOLVED that:

- 1 The Financial Statements 2014/15, attached as Annexe A to the Borough Treasurer's report, be approved.
- 2 The Chairman of the Committee be authorised to sign and date the Statement of Accounts on behalf of the Committee.
- 3 The Chairman of the Committee be authorised to sign and date the Letter of Representation, as set out in Annexe B to the Borough Treasurer's report.

17. **Employees Code of Conduct Amendment**

The Committee considered a report of the Director of Corporate Services seeking the endorsement of an amendment to the Employees Code of Conduct to introduce a requirement for all Council employees to declare the existence of criminal charges, cautions and convictions to their line manager. It was proposed to report similarly to the Employment Committee, with a final decision to be taken by the Council on 25 November 2015.

The proposed change followed a decision by Corporate Management Team to review and amend the practice of carrying out three yearly Disclosure and Barring Service (DBS) rechecks to posts where there is no statutory duty to do so. The imposition of a requirement on employees to disclose new convictions was expected to mitigate any risks which might arise.

The report set out the suggested wording to be included to Employee's Code relating to the proposed new imposition on employees to report. This included a reference to the use of disciplinary proceedings should the report of a charge, conviction or

caution be considered to affect the suitability of the employee for their position, bring the Council into disrepute or undermine the Council's trust in the employee.

Arising from discussion, the Committee identified a number of issues which did not appear to have been taken into account in formulating the proposal:

- The three yearly DBS rechecks had been carried out on only a minority of the Council's staff, yet the addition to the Code of Conduct introducing a duty to report would be imposed on all employees.
- Was this a proportionate response given that during the time the Council had performed regular rechecks, there was no record of there having been any employee whose employment had been terminated due to new offences being detected through this process.
- The suggested wording referred only to charges by the police; it did not take account of charges brought by other agencies.
- If a duty to report was imposed, was the employee's line manager considered a sufficiently senior officer of the Council to whom such report should be made.

RESOLVED that the matter be deferred for further consideration by the Officers, taking into account the issues referred to above, and reported back to this Committee and the Employment Committee in the next cycle of meetings.

18. **Amendments to the Council's Constitution**

The Committee considered a report of the Director of Corporate Services seeking approval to amend the Council's Constitution to remove reference to a Sustainable Community Plan from the Policy Framework (for recommendation to the Council).

A recent change in legislation had removed the duty for local authorities to prepare a Sustainable Community Strategy. The Sustainable Community Strategy was intended to set the overall strategic direction for the Council, forming the overarching strategy for the Council's Performance Framework. In the new Performance Framework which the Council was working to introduce in April 2016, the Council Plan would be the highest overarching Council Strategy and there would no longer be a place for a Sustainable Community Plan.

RECOMMENDED that the Monitoring Officer be authorised to remove reference to the Sustainable Community Plan from the Policy Framework set out in Part 2: Section 3 of the Constitution, and to make any consequential changes to the Constitution that might be required.

19. **Exclusion of Public and Press**

That pursuant to Regulation 21 of the Local Authorities (Executive Arrangements) (Access to Information) Regulations 2000 and having regard to the public interest, members of the public and press be excluded from the meeting for the consideration of item 10 which involves the likely disclosure of exempt information under the following category of Schedule 12A of the Local Government Act 1972:

- (3) Information relating to the financial or business affairs of any particular person.

20. **Strategic Risk Management Update**

The Committee considered a report presenting the Strategic Risk Register for review (the Register was attached to the report at Appendix 1).

In accordance with the Risk Management Strategy, the Strategic Risk Register had been reviewed quarterly by the Strategic Risk Management Group and every six months by the Corporate Management Team. An update of changes to the assessment of risk and any mitigating actions was shown.

The Committee noted the Strategic Risk Register set out in Appendix 1 to the report.

CHAIRMAN

**TO: GOVERNANCE AND AUDIT COMMITTEE
27 JANUARY 2016**

EXTERNAL AUDIT MATTERS Borough Treasurer

1 PURPOSE OF REPORT

- 1.1 To note the Audit Progress Report.
- 1.2 To note the Certification of Claims and Returns Annual Report 2014/15.

2 RECOMMENDATIONS

- 2.1 **That the Governance and Audit Committee note the Audit Progress Report and the Certification of Claims and Returns Annual Report 2014/15.**

3 REASONS FOR RECOMMENDATIONS

- 3.1 To advise the Governance and Audit Committee on progress with the external audit.
- 3.2 To advise the Governance and Audit Committee of the external auditor's findings following the conclusion of work undertaken on claims and returns for 2014/15.

4 ALTERNATIVE OPTIONS CONSIDERED

- 4.1 None

5 SUPPORTING INFORMATION

- 5.1 The Council's external auditor, Ernst and Young, has provided the Committee with a report on progress with the audit which is attached at Annex A.
- 5.2 The Council claims significant sums of money from the Government and the external auditor is required to undertake certification work to provide assurance that the Council's claims for grant are made properly and that the information contained in financial returns is reliable. In Bracknell Forest this work is focussed on the housing benefits subsidy claim only.
- 5.3 The external auditor's Certification of Claims and Returns Annual Report for 2014/15 is attached at Annex B and Helen Thompson, Director, Ernst and Young will attend the meeting to present both reports and answer questions.

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 Not applicable.

Strategic Risk Management Issues

6.4 There are no strategic risk management issues arising from this report.

Other Officers

6.5 Not applicable

7 CONSULTATION

Principal Groups Consulted

7.1 Not applicable

Method of Consultation

7.2 Not applicable

Representations Received

7.3 Not applicable

Background Papers

None

Contact for further information

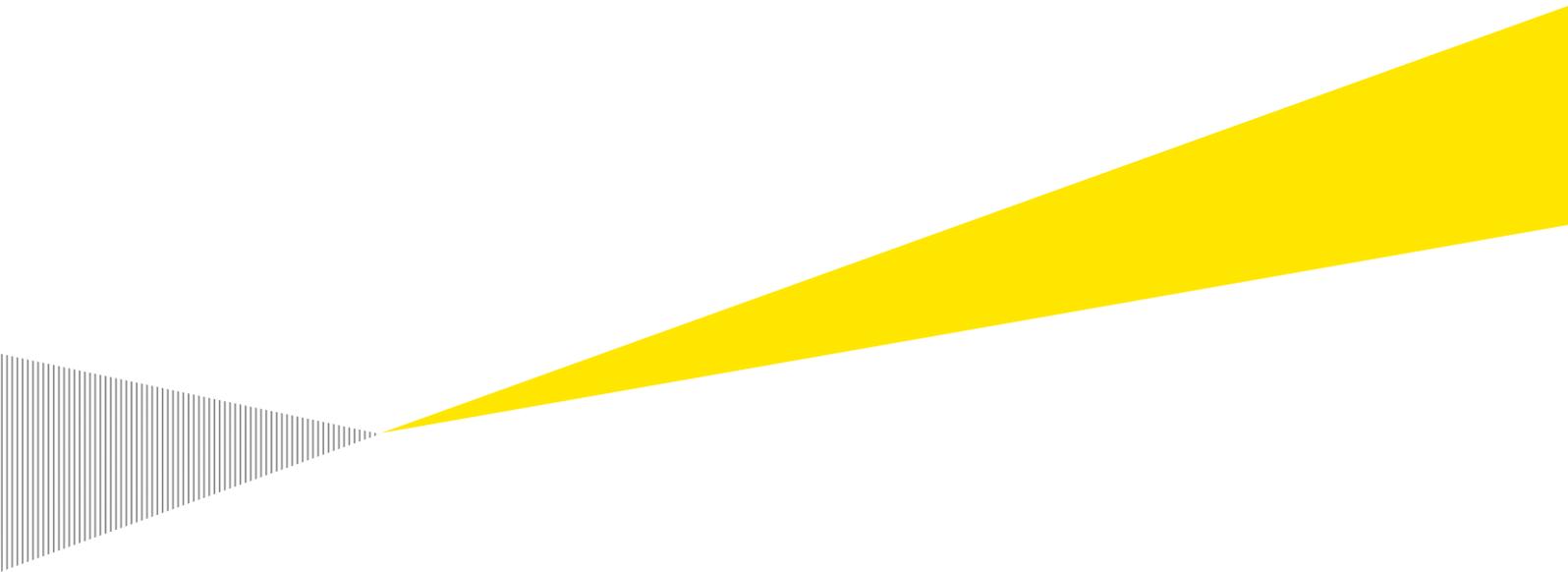
Alan Nash, Borough Treasurer – 01344 352180

alan.nash@bracknell-forest.gov.uk

Bracknell Forest Council

Governance and Audit Committee Progress Report

January 2016



Governance and Audit Committee
Bracknell Forest Borough Council
Easthampstead House
Town Square
Bracknell
Berkshire
RG12 1AQ

15 January 2016

Audit Progress Report

We are pleased to attach our Audit Progress Report.

It sets out the work we have completed since our last report to the Committee. Its purpose is to provide the Committee with an overview of the progress that we have made with the work that we need to complete during the 2015/16 audit. This report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations.

Our audit is undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully



Helen Thompson
Director
For and behalf of Ernst & Young LLP

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between 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 ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This progress update is prepared in the context of the Statement of responsibilities. It is addressed to the Governance and Audit Committee, and is prepared for the sole use of the audited body. 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..

2014/15 audit

Annual Audit Letter

The Audit Commission's Code of Audit Practice requires auditors to prepare an annual audit letter and issue it to each audited body.

The purpose of preparing and issuing annual audit letters is to communicate to the audited body and key external stakeholders, including members of the public, the key issues arising from auditors' work, which auditors consider should be brought to the attention of the audited body.

Our annual audit letter for 2014/15 is reported to the Governance and Audit Committee and is included in today's agenda.

Certification and grants report

Our Certification of Claims and Returns Annual Report 2014/15 summarises the results of our work on Bracknell Forest Council's 2014-15 claims. This report is included on today's agenda.

2015/16 audit

Fee letter

We issued our 2015/16 fee letter to the Council in April 2015.

Audit team changes

At the last Governance and Audit Committee meeting we announced that 2014/15 was the last year of appointment for Helen Thompson, the engagement director for the audit. We have subsequently reconsidered the portfolio changes, and Helen will continue as the engagement director during 2015/16. This will complete the standard five year rotation period, rather than changing a year early.

We have also made a change at audit manager level with Malcolm Haines taking over responsibility from Rachel Brittain.

Financial Statements

We adopt a risk based approach to the audit and, as part of our ongoing continuous planning, we continue to meet key officers regularly to ensure the 2015/16 audit runs as smoothly as possible and identify any risks at the earliest opportunity.

Planning and interim visit

Our work to identify the Council's material income and expenditure systems and to walk through these systems commenced in January 2016. This planning visit will be followed by an interim audit in February 2015 when will plan our substantive testing strategy and, where possible, commence early testing in areas such as journals and housing benefits.

There are no matters arising from our initial planning meetings that we need to bring to your attention at this stage. We will update the Committee when the planning and early substantive testing has been completed.

Internal Audit

Internal Audit is a key part of the Council's internal control environment that we review during our assessment process. This process helps us to assess the level of risk of material errors occurring in the financial statements and informs the level of testing that we are required to complete in support of the audit opinion. We consider Internal Audit's progress with their annual audit plan and the results of their testing of financial systems and, where it is appropriate to do so, we will undertake procedures to enable us to place reliance upon this testing.

Post statements visit

We have agreed dates for our audit visit, which is planned to commence on Monday 4 July 2016, and we will have early discussions on the working papers required in support of the audit.

Our detailed audit plan, setting out the risks we have identified and the work we will undertake in response, will be presented to the Governance and Audit Committee on 30 March 2016.

We will continue to use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular payroll and journal entries.

We will also review and report to the National Audit Office, to the extent and in the form required by them, on your whole of government accounts return.

Local appointment of auditors

The Department of Communities and Local Government (DCLG) has announced that it has decided not to extend the existing arrangements for external audit contracts beyond the end of 2017/18. From 2018/19 onwards, local authorities will be responsible for appointing their own auditors, and directly managing the resulting contract and the relationship.

Although the new approach to local audit does not come into play until 2018/19, bodies will need to start putting in place the mechanism required to deliver this. As part of the process, bodies will need to set up auditor panels to advise on the selection, appointment and removal of external auditors, and on maintaining an independent relationship with them. These will need to be in place by early 2017, with the procurement process taking place in spring 2017 and external auditors being appointed by December 2017.

Existing external audit arrangements will remain unchanged for the 2015/16, 2016/17 and 2017/18 years.

Value for money

The NAO consulted on a draft Auditor Guidance Note (AGN) in respect of auditors' work on value for money (VFM) arrangements. The guidance has now been issued and sets out the proposed overall approach to work on VFM arrangements which apply to audits from 2015/16 onwards.

A copy of the final AGN, and the supporting information for local government bodies, can be viewed on the NAO website: <http://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/>.

We are required to reach our statutory conclusion on arrangements to secure value for money based on the overall evaluation criterion, supported by sub-criteria as set out below.

The overall criterion for 2015/16 is:

- ▶ In all significant respects, you had proper arrangements to ensure you took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

"The overall criterion is supported by three sub-criteria, designed to help us structure our risk assessment". There is no requirement for us to conclude or report against the following sub-criteria:

- ▶ informed decision making;
- ▶ sustainable resource deployment; and
- ▶ working with partners and other third parties.

We will carry out our initial risk assessment in early 2016 and report the risks we have identified, and associated work we will carry out, to the Governance and Audit Committee in June 2016.

Other issues of interest

In addition to our formal reporting and deliverables we provide practical business insights and updates on regulatory matters through our Sector Briefings.

Timetable

We set out below a timetable showing the key stages of the audit, including the value for money work, and the deliverables we will provide to you through the 2015/16 Governance and Audit Committee cycle.

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Audit phase	EY Timetable	Deliverable	Reported	Status
High level planning	Ongoing	Audit Fee Letter	April 2015	The fee letter for 2015/16 was reported to the Committee in April 2015
Risk assessment and setting of scope of audit	January 2016	Audit Plan	March 2016	In progress
Testing of routine processes and controls	January/February 2016	Audit Plan	March 2016	In progress
Year-end audit	July/August 2016	Audit results report to those charged with governance in September 2016. Audit report (including our opinion on the financial statements and a conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources) Whole of Government Accounts Submission to NAO based on their group audit instructions Audit Completion certificate	May 2016	Work is planned to start during July 2016. Governance and Audit Committee date to be confirmed.

EY | Assurance | Tax | Transactions | Advisory

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Certification of claims and returns annual report 2014-15

Bracknell Forest Council

7 January 2016

Ernst & Young LLP



The Members of the Governance and Audit Committee
Bracknell Forest Council
Easthampstead House
Town Square
Bracknell
Berkshire
RG12 1AQ

7 January 2016

Email: HThompson2@uk.ey.com

Dear Members

Certification of claims and returns annual report 2014-15 Bracknell Forest Council

We are pleased to report on our certification work. This report summarises the results of our work on Bracknell Forest Council's 2014-15 claims.

Scope of work

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and must complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require appropriately qualified auditors to certify the claims and returns submitted to them.

Under section 28 of the Audit Commission Act 1998, as transitionally saved, the Audit Commission made arrangements for certifying claims and returns in respect of the 2014-15 financial year. These arrangements required only the certification of the housing benefits subsidy claim. In certifying this we followed a methodology determined by the Department for Work and Pensions and did not undertake an audit of the claim.

Statement of responsibilities

The Audit Commission's 'Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns' (statement of responsibilities) applied to this work. It serves as the formal terms of engagement between ourselves as your appointed auditor and the Council as audited body.

This report is prepared in the context of the statement of responsibilities. It is addressed to those charged with governance and is prepared for the sole use of the Council. As appointed auditor we take no responsibility to any third party.

Summary

Section 1 of this report outlines the results of our 2014-15 certification work and highlights the significant issues.

We checked and certified the housing benefits subsidy claim with a total value of £33,363,744, meeting the submission deadline. We issued a qualification letter when certifying this claim; details of the qualification matters are included in section 2. Our certification work found a small number of errors which the Council corrected. The amendments had a marginal effect on the grant due. We would like to

thank officers in the Welfare and Housing team for their support during the audit. Our testing identified fewer errors than in previous years, continuing the improvement noted in last year's report.

Fees for certification work are summarised in section 2. The fees for 2014-15 were published by the Audit Commission on 27 March 2014 and are now available on the Public Sector Audit Appointments Ltd (PSAA's) website (www.psaa.co.uk)

We welcome the opportunity to discuss the contents of this report with you at the Governance and Audit Committee on 27 January 2016.

Yours faithfully



Helen Thompson
Executive Director
Ernst & Young LLP
Enc

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1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£33,361,965
Amended	Amended – subsidy increased by £1,779
Qualification letter	Yes
Fee – 2014-15	£41,580 (see section 2 below)
Fee – 2013-14	£33,433

Local government administers the Government's housing benefits scheme for tenants and can claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid.

The certification guidance requires auditors to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the audit of previous years' claims. We identified one error in the 2013/14 claim in relation to earned income calculations, and we therefore completed extended testing on this in 2014-15.

However, we did not identify any errors in the initial sample testing completed in 2014-15.

Uncashed cheque testing identified one error which the Council amended. This had a small net impact on the claim. We have reported the extrapolated value of other errors in a qualification letter. The DWP will decide whether to ask the Council to carry out further work to quantify the error or to claw back the benefit subsidy paid.

2. 2014-15 certification fees

The Audit Commission determined a scale fee each year for the audit of claims and returns. For 2014-15, these scale fees were published by the Audit Commission on 27 March 2014 and are now available on the PSAA's website (www.psaa.co.uk).

Claim or return	2013-14	2014-15	2014-15
	Actual fee £	Indicative fee £	TBC Actual fee £
Housing benefits subsidy claim	33,433	41,580	33,500
Total	33,433	41,580	33,500

The 2014-15 housing benefit subsidy claim was comparable to the 2013/14 audit in relation to the type and number of errors identified and the process for audit. As such, we are proposing a refund to the Council to the level of the 2013/14 audit fee. This refund will need to be approved by Public Sector Audit Appointments (PSAA) and we will confirm the outcome of this process to the Council in early 2016.

3. Looking forward

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to (PSAA) by the Secretary of State for Communities and Local Government.

The Council's indicative certification fee for 2015-16 is £25,075. This was prescribed by PSAA in April 2015, based on no changes to the work programme for 2015-16. PSAA reduced scale audit fees and indicative certification fees for most audited bodies by 25 per cent based on the fees applicable for 2013-14.

Details of individual indicative fees are available at the following web address:
<http://www.psa.co.uk/audit-and-certification-fees/201516-work-programme-and-scales-of-fees/individual-fees-for-local-government-bodies>

We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the Borough Treasurer before seeking any such variation.

Ernst & Young LLP

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**TO: GOVERNANCE AND AUDIT COMMITTEE
27 JANUARY 2016**

**ANNUAL AUDIT LETTER 2014/15
Chief Executive/Borough Treasurer**

1 PURPOSE OF REPORT

- 1.1 To receive the external auditor's Annual Audit Letter for 2014/15, which has previously been circulated to all Members.

2 RECOMMENDATION

- 2.1 **That the Governance and Audit Committee note the Annual Audit Letter 2014/15 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 2014/15 audit, which comprises three main elements:
- the audit of the financial statements;
 - reviewing the Council's Annual Governance Statement, and
 - the external auditor's conclusion on the Council's arrangements to secure economy efficiency and effectiveness in its 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.
- 5.3 The external auditor, Helen Thompson, will attend the meeting of the Governance and Audit Committee to present the Annual Audit Letter 2014/15.

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

Annual Audit Letter for the year ended 31 March 2015

October 2015

Ernst & Young LLP



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

16 October 2015

Dear Members

Annual Audit Letter 2014-15

The purpose of this annual audit letter is to communicate the key issues arising from our work to Members and external stakeholders, including members of the public.

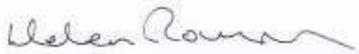
We have already reported the detailed findings from our audit work in our 2014-15 annual results report to the 23 September Governance and Audit Committee, representing those charged with governance. We do not repeat them here.

The matters reported here are those we consider most significant for Bracknell Forest Council.

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

This is my final year as Executive Director for Bracknell Forest Council. I would like to extend my thanks to officers and members for their assistance over my time as engagement lead. I will work with my successor, Kate Handy (KHandy@uk.ey.com), to facilitate a smooth handover and she will introduce herself to officers and members at upcoming meetings.

Yours faithfully



Helen Thompson
Executive Director
For and on behalf of Ernst & Young LLP
Enc.

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Relevant parts of the Audit Commission Act 1998 are transitionally saved by the Local Audit and Accountability Act 2014 (Commencement No. 7, Transitional Provisions and Savings) Order 2015 for 2014/15 audits.

The Audit Commission's 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the accountable officer 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 2014-15 audit work was undertaken in accordance with the Audit Plan issued on 25 March 2015 and was 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 an Annual Governance Statement. In the Annual Governance Statement the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for having 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, and on the consistency of other information published with them;
- reviewing and reporting by exception on the Council's Annual Governance Statement;
- forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources; and
- undertaking any other work specified by the Audit Commission and the Code of Audit Practice.

Summarised below are the results of our work across all these areas:

Area of work	Result
Audit of the financial statements of Bracknell Forest Council for the financial year ended 31 March 2015 in accordance with International Standards on Auditing (UK & Ireland).	On 23 September 2015 we issued an unqualified audit opinion on the Council's financial statements.
Form a conclusion on the arrangements the Council has made for securing economy, efficiency and effectiveness in its use of resources.	On 23 September 2015 we issued an unqualified value for money conclusion.
Report to the National Audit Office on the accuracy of the consolidation pack prepared by the Council for the Whole of Government Accounts.	We reported our findings to the National Audit Office on 23 September 2015.
Consider the completeness of disclosures on the Council's Annual Governance Statement, identify any inconsistencies with other information which we know about from our work and consider whether it complies with CIPFA/ SOLACE guidance.	The Council was below the £350 million reporting threshold.
Consider whether we should make a report in the public interest on any matter coming to our notice in the course of the audit.	No issues to report.
Determine whether we need to take any other action in relation to our responsibilities under the Audit Commission Act.	No issues to report.
	No issues to report.

Area of work

Result

As a result of the above we have also:

Issued a report to those charged with governance of the Council with the significant findings from our audit.

Our Audit Results Report was issued on 23 September 2015 to the Governance and Audit Committee.

Issued 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.

Issued on 23 September 2015.

In January 2016 we will also issue a report to those charged with governance of the Council summarising the certification (of grant claims and returns) work we have undertaken.

2. Key findings

2.1 Financial statement audit

The Council's Statement of Accounts is an important tool to show both how the Council has used public money and how it can demonstrate its financial management and financial health.

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 and issued an unqualified audit report on 23 September 2015.

Our detailed findings were reported to the Governance and Audit Committee on 23 September 2015. We did not identify any errors or misstatements in the financial statements presented for audit, demonstrating the Council prepared its financial statements to a high standard.

The main issues identified as part of our audit were:

Significant risk 1: Risk of management override

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We identify and respond to this fraud risk on every audit engagement.

For local authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override.

Findings:

We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; reviewed accounting estimates for evidence of management bias; evaluated the business rationale for significant unusual transactions; and reviewed capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.

No issues were identified from our testing

Significant risk 2: Valuation of Property, Plant and Equipment

Valuations of property assets and capital expenditure are significant accounting estimates that have a material impact on the financial statements.

In 2014-15, the Council proposed making use of its external valuer more extensively than in previous years, including the revaluation of schools assets. Early feedback from Council officers suggested that a change in estimation methodology by the new valuers would have a significant impact on the asset values disclosed in the financial statements.

Findings:

Following early discussions, the Council decided to use its internal valuers for the school asset revaluation exercise. Therefore the level of risk associated with valuation reduced. We undertook our standard audit procedures to gain assurance over the valuation of property assets.

No issues were identified from our testing of property valuations.

Significant risk 3: Non-Domestic Rates (NDR) rateable value appeals provision

The Business Rates Retention Scheme came into force on 1 April 2013. Under the scheme a proportion of the business rates collected by councils are retained locally with the balance paid over to central government.

The Council accounted for this scheme in 2013-14, appointing Analyse Local as experts to inform the estimation of the provision calculation.

In 2014-15, significant challenges remained in the calculation of this provision due to the ongoing appeals process. The potential cost of successful rateable value appeals could again have been significant to the Council. The Council appointed Rates Plus as experts to inform this calculation as there is a high level of estimation uncertainty in determining an accurate provision for the cost in the financial statements.

Findings:

We reviewed and assessed the reasonableness of the Council's methodology in estimating the planned provision in respect of rateable value appeals outstanding at the balance sheet date.

We considered both the completeness and accuracy of the data on the number of appeals outstanding and the basis for the assumptions made by the Council on the likelihood of success.

We reviewed and relied on the work of the experts appointed by management to assist in this process.

No issues were identified from this testing.

Other risk 1: Accounting for schools

CIPFA set out, in the Code of Practice on Local Authority Accounting in the United Kingdom 2014-15 Appendix E, its view that based on the indicators of control within IFRS 10, the balance of control lies with local authorities for all maintained schools. The definition of maintained schools includes community, voluntary controlled, voluntary aided, foundation, community special, foundation special and nursery schools.

We reviewed the Council's assessment that no changes were required to the way it currently accounts for schools, and we did not identify any issues with this assessment.

2.2 Value for money conclusion

As part of our work we also conclude whether the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This is known as our value for money conclusion.

In accordance with guidance issued by the Audit Commission, our 2014-15 value for money conclusion was based on two criteria. We consider whether the Council had proper arrangements in place for:

- ▶ securing financial resilience, and
- ▶ challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 23 September 2015.

We noted the following findings as part of our audit.

Key finding 1: Financial resilience and economy efficiency and effectiveness

The Council continues to support the ambitious town centre redevelopment and has significantly increased its capital programme. This will require the Council to:

- borrow to support delivery of the programme from 2016-17 at the earliest and increasing significantly in 2017-18 as per the Treasury Management Strategy.
- develop appropriate risk management and governance arrangements to support its longer-term financial planning.

Findings

The Council has made good progress in this area in 2014-15, with plans now underway and funding streams fully understood. The Council commissioned public sector specialists LG Futures to provide a forecasting package which has produced a five year plan to a level of detail beyond the previous three year plan.

The forecast budget gap currently stands at £25 million over the next five years, and makes allowance for unknown factors, for example: new budget pressures, potential increases in council tax or business rates.. The Council is continuing to develop plans to address the forecast gap, and progress will continue during 2015-16, including taking account of the funding implications from the November 2015 government spending review and the provisional local government settlement in December 2015.

The overall medium term funding position is beginning to become clearer but remains a 'work in progress'. The Council is fully aware of the need to reduce the identified gap between funding and expenditure and is looking at all avenues to do so. The improvements made to the systems for planning and budgeting will aid this process.

Key finding 2: Better Care Fund

The Better Care Fund (BCF) is a single pooled budget for health and social care services to work more closely together in local areas.

With increasing demand for these services, the Council needs to balance effective delivery with the financial pressures placed on this Fund. The Council needs to ensure its involvement in developing the key infrastructure to deliver this initiative balances sufficient involvement to ensure systems are in place to support the structures with ensuring it is not exposed to additional risks and financial costs from so doing.

Findings

As required by the Department of Health, a pooled budget and associated schedules were approved before the start of the 2015-16 financial year. These reflected the plan as approved by the Council, the CCG and ultimately the Health and Wellbeing Board. Ongoing monitoring of the schemes within the plan, finance, performance indicators and risks are reported to all meetings of the BCF Steering Group and BCF Programme Board. A robust governance structure for the fund was established in 2014-15 as described in the BCF plan which was approved by the Department of Health in December 2014.

Our review found the various committees have the appropriate level of membership, and attendance, from the various stakeholder groups, in particular, the Council, the Clinical Commissioning Group (CCG), and the Foundation Trust. These arrangements have enabled the Fund to commence successfully on 1 April 2015 and, as at the date of this report, report formally on the first quarter of 2015-16 to the requirements required by NHS England, with no significant budgetary deficiencies, demonstrating the reporting arrangements in place are sound.

2.3 Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Authority for Whole of Government Accounts purposes. The Council is below the £350 million reporting threshold and therefore no audit work was required.

We had no issues to report.

2.4 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 which we know about from our work; and consider whether it complies with relevant guidance.

We completed this work and did not identify any areas of concern.

2.5 Objections received

We did not receive any objections to the 2014/15 financial statements from members of the public.

2.6 Other powers and duties

We identified no issues during our audit that required us to use powers under the Audit Commission Act 1998, including reporting in the public interest.

2.7 Independence

We communicated our assessment of independence to the Governance and Audit Committee on 23 September 2015. In our professional judgement, the firm is independent and the objectivity of the audit engagement director and audit staff has not been compromised within the meaning of regulatory and professional requirements.

2.8 Certification of grant claims and returns

We will issue the annual certification report for 2014-15 in January 2016.

3. Control themes and observations

As part of our work, we obtained enough understanding of internal control 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 must tell the Council about any significant deficiencies in internal control we find during our audit.

We did not identify any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the Council's financial statements.

4. Looking ahead

Description	Impact
<p>Highways Network Assets (formerly Transport Infrastructure Assets)</p> <p>The invitation to comment on the Code of Accounting Practice for 2016-17 (ITC) sets out the requirements to account for Highways Network Assets under depreciated replacement cost from the existing depreciated historic cost. This is to be effective from 1 April 2016.</p> <p>This will be a material change of accounting policy for the Council. It will also require changes to existing asset management systems and valuation procedures.</p> <p>Relevant assets may also be held outside of the highways department, which will also have to be valued on the revised basis.</p> <p>This may be a material change of accounting policy for the Council. It could also require changes to existing asset management systems and valuation procedures.</p>	<p>CIPFA have produced <i>LAAP bulletin 100</i>, which provides a suggested timetable for actions to prepare for this change. This has been supplemented by the issue of the <i>Code of Practice on Transport Infrastructure Guidance Notes (May 2015) and ITC (July 2015)</i>.</p> <p>The Council need to ensure they have arrangements in place to meet the disclosure requirements of the Code and may need to consider:</p> <ul style="list-style-type: none"> • The need to demonstrate completeness of base information, working closely with highways and other relevant departments. • The need to ensure that valuation information is appropriate to the Council, and that national valuation indicators are not used without consideration of their appropriateness locally.
<p>Earlier deadline for production and audit of the financial statements from 2017-18</p> <p>The Accounts and Audit Regulations Accounts and Audit Regulations 2015 were laid before Parliament in February 2015. A key change in the regulations is that, from the 2017-18 financial year the timetable for the preparation and approval of accounts will be brought forward.</p> <p>As a result, the Council will need to produce draft accounts by 31 May and these accounts will need to be audited by 31 July.</p>	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>The Council is aware of this challenge and the need to start planning for the impact of these changes. This will include review of the processes for the production and audit of the accounts, including areas such as the production of estimates, particularly in relation to pensions and the valuation of assets, and the year-end closure processes.</p>

5. Fees

Our fee for 2014-15 is in line with the scale fee set by the Audit Commission and reported in our 25 March 2015 Audit Plan and 23 September Annual Results Report.

	Final fee 2014-15	Scale fee 2014-15
Total Audit Fee – Code work	£139,634	£139,634
Total Audit Fee – Certification of claims and returns	£41,580*	£41,580
Non-audit work	£62,000**	£62,000

* Our fee for the certification of grant claims is based on the indicative scale fee set by the Audit Commission. This will be reviewed in light of the work required in 2014-15.

** A breakdown of this was given in the Audit Plan of 25 March 2015.

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**TO: GOVERNANCE AND AUDIT COMMITTEE
27 JANUARY 2016**

**INTERNAL AUDIT ASSURANCE REPORT
April –December 2015
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 2015. 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 attached report.**

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 March 2015. 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.

6. ADVICE FROM STATUTORY OFFICERS

6.1 Borough Treasurer
Nothing to add.

6.2 Borough Solicitor

The Legal basis for the Internal Audit function is set out in Paragraph 1.1 of the covering report. There are no specific legal implications arising from the Internal Audit report."

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 2015/16
Strategic Risk Register

Contact for further information

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sally.hendrick@bracknell-forest.gov.uk



HEAD OF AUDIT AND RISK MANAGEMENT REPORT

APRIL – DECEMBER 2015

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 2015 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

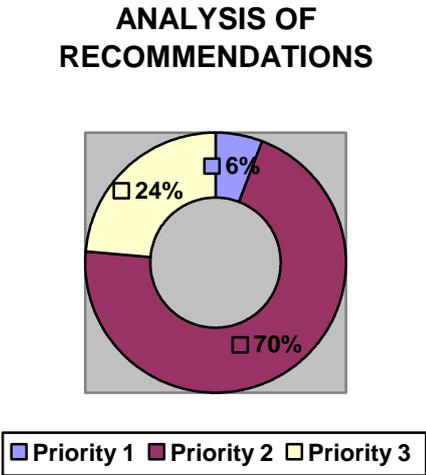
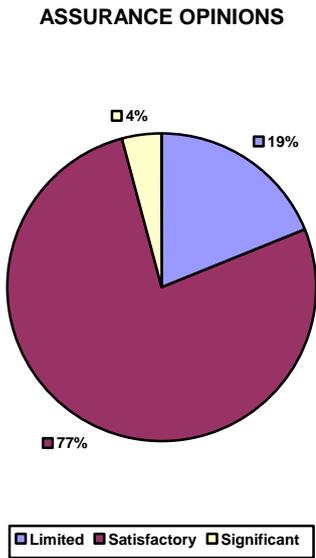
ASSURANCE LEVEL	DEFINITION
Significant	There is a sound system of internal controls to meet the system objectives and testing performed indicates that controls are being consistently applied
Satisfactory	There is basically a sound system of internal controls although there are some minor weaknesses in 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 2015/16 was considered and approved by the Governance and Audit Committee on 25th March 2015. The delivery of the individual audits is largely undertaken by our contractors Mazars Public Sector Internal Audit. In addition, 21 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 2015, 9 grants were certified, 9 memos were issued, 39 reports were finalised, 7 had been issued in draft awaiting management responses and in 13 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 OUTCOMES APRIL – DECEMBER 2015



ASSURANCE	FINAL AND DRAFT APRIL- DECEMBER 2015	FINAL AND DRAFT APRIL- DECEMBER 2014
Significant	2	1
Satisfactory	35	28
Limited	9	7
Total for Audits Including an Opinion	46	36
Grant Claim Certifications	9	10
Memos issued	9	1
Total	64	47

	Client Questionnaires		Draft Report /Memo Produced within 15 Days of Exit meeting
	Received	Satisfactory	
April to December 2015	16	100%	69%
2014/15	35	94%	71%

3.3 As noted above and at Appendix A, delivery against the planned programme is on track with the bulk of quarter 1- 3 audits finalised, issued in draft, or already in progress. The majority of assurance opinions given were satisfactory with 2

significant and 9 limited opinions (2014/15: 7 for April to December and 15 for the full year).

Significant Control Issues

- 3.4 Audits which have generated a limited assurance opinion will generally be revisited in 2016/17, to ensure successful implementation of agreed recommendations. The key weaknesses identified during audits with a limited assurance opinion to date are as follows:

DIRECTORATE	AUDITS WITH LIMITED ASSURANCE CONCLUSION
COUNCIL WIDE AUDITS	<p><u>COUNCIL WIDE PROCUREMENT</u> A limited assurance opinion was given as two priority recommendations were raised in respect of appropriate action not being take on expiry of waivers and approval of waivers not being obtained in advance or without supporting evidence for justification. Officers have been reminded of the procedures to be followed.</p>
CHILDREN, YOUNG PEOPLE AND LEARNING	<p><u>SCHOOLS</u> Limited assurance opinions were given on seven main school audits and one school census audit during April to December 2015. Senior officers from the Education Authority are providing support to the Schools to enable them to address weaknesses in their control environments and the schools will be re-audited during 2016/17 where these schools have not become academies. In light of the number of schools indicating weaknesses in approval and monitoring of expenditure, Internal Audit will assist with providing training and revised guidance to all schools at Bursar Support sessions. The DBS requirements will also be covered at the Bursars Support sessions.</p> <p><u>Sandy Lane Primary School (main school audit)</u> Testing of a sample of transactions identified weaknesses in controls over the incurring and monitoring of expenditure and inappropriate expenditure.</p> <p><u>Sandy Lane Primary School (school census audit)</u> Opinion due to registers not being retained as legally required.</p> <p><u>Sandhurst Secondary School</u> Testing of a sample of transactions identified weaknesses in controls over the incurring, approval and monitoring of expenditure.</p> <p><u>Jennett's Park Primary School</u> Testing of a sample of transactions identified weaknesses in controls over the incurring and approval of expenditure.</p> <p><u>St Michael Easthampstead C of E Primary School</u> Opinion due to inappropriate expenditure incurred on the purchasing card.</p>

	<p><u>Kennel Lane</u> Opinion due to absence of financial procedures, neither a DBS nor check to manual barring and vetting list being obtained prior to employment, weaknesses in controls over incurring and approval of expenditure and weaknesses in inventory controls.</p> <p><u>Brakenhale Secondary School (in the process of becoming an academy school)</u> Testing of a sample of transactions identified weaknesses in controls over the incurring, approval and monitoring of expenditure.</p> <p><u>St Margaret Clitherow (now an academy school)</u> Opinion given as neither a DBS nor check to manual barring and vetting list was obtained prior to employment.</p>
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Update of 2014/15 Limited Assurance Opinions

- 3.5 An update on the limited assurance opinions given in 2014/15 is shown at Appendix B. This shows that as at December 2015, follow up audits had been finalised in 5 cases. In one case a significant opinion was given, in 2 cases a satisfactory opinion was given and in 2 cases a limited opinion was given again. Details on these cases are given in Section 3.4.

Quality Assurance and Improvement Programme

- 3.6 As shown above in section 3.2, 100% of the client questionnaires indicated the auditees were satisfied with the service. All grants were certified in accordance with Government departments' deadlines. In 69% 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 2015, the Strategic Risk Register was reviewed three times by the Strategic Risk Management Group (SRMG), twice by the Corporate Management Team (CMT) and by the Governance and Audit Committee on 23rd September 2015. A review of progress on actions to address strategic risks was carried out in December 2015/January 2016. 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. The core mandatory data for submission for the 2014 round was:

- payroll
- pensions

- trade creditors
- housing benefits
- council tax
- electoral register
- private supported care home residents
- transport passes and permits (including residents' parking, blue badges and concessionary travel)
- insurance claimants
- licences – market trader/operator, taxi driver and personal licences to supply alcohol
- personal budget (direct payments)

Data was submitted to the Audit Commission during 2014 and matches received back in during 2015. The majority of work has been completed on the NFI matches issued for investigation. There is still some ongoing work in various areas. To date as a result of investigating 378 Housing and Council Tax Benefits matches, a reduction of 1.9% Housing Benefit has been made on cases investigated. No frauds have been identified to date in any other areas as a result of NFI.

- 5.2 Data is due to be submitted to match Council Tax single person discounts to the Electoral Roll and the matches following this will be received in 2016 for follow up.

Benefits Investigations

- 5.3 On 1st December 2014, the Council's Benefit Fraud Investigation Officers transferred to the Single Fraud Investigation Service (SFIS) within the Department for Work and Pensions (DWP) as part of the national government programme of centralising the investigation of welfare benefit fraud. Under the new arrangements, the Housing Benefits Service now passes cases of overpayments in excess of £2k to SFIS for investigation where fraud is suspected. During the period April to December 2015 the Benefits Service passed 65 cases across to SFIS.
- 5.4 From 1st April 2014, if a claimant is notified that they have been overpaid Housing Benefit of £250.00 or more, which must have occurred wholly after 1st October 2012, Bracknell Forest Borough Council has been able to impose a set Civil Penalty of £50. The £50 Civil Penalty applies if benefit is overpaid because the claimant negligently gave incorrect information and didn't take reasonable steps to correct their mistake or failed to tell the Council about a change or failed to give them information without a reasonable excuse. Between April and December 2015 the service applied 348 Civil Penalties. A proposal is now being considered to also apply penalties in respect of Council Tax.
- 5.5 DWP carries out an exercise matching HM Revenue and Customs Real Time Information (RTI) against data held on six social security benefits; (Income Support, Jobseekers Allowance, Housing Benefit, Employment and Support Allowance, Pension Credit and Carers Allowance) to identify cases where claimants have either failed to declare or have under declared earnings and Non State Pension. The project commenced in October 2014 and has resulted in referrals being issued to local authorities where DWP has information that earnings or Non State Pension have not been correctly declared for the purposes of Housing Benefit. From April to December 2015 Bracknell Forest Council received 565 referrals of which approximately 58% of referrals have resulted in either a reduction or increase to Housing Benefit and 56% in a reduction or increase to Council Tax Reduction.

- 5.6 The Fraud and Error Reduction Incentive Scheme (FERIS) was launched on 24 November 2014. Local Authorities could opt into the scheme and bid for funding. FERIS is an incentive scheme that offers a financial reward to local authorities that find reductions to Housing Benefit entitlement as a result of claimant error or fraud. It is for each local authority to decide how best they can identify additional changes to entitlements resulting from fraud and error. Bracknell Forest opted in to FERIS and since April 2015 the Council has carried out targeted campaigns to 687 households resulting in approximately 60% reduction of Housing Benefit and 55% reduction of Council Tax Reduction.
- 5.7 During 2015/16, the Council has also commenced participation in a data matching initiative for detecting Council Tax Reduction fraud delivered via a partnership consortium between a number of local authorities and Capacity Grid. The Capacity Grid initiative matches Bracknell's Housing Benefit and Council Tax Reduction Scheme data against 25 external data sources and produces a risk score on 93 claims each month. The solution was introduced 26 August 2015. Once the data matches results are provided to Bracknell, the Benefit Service then follows up and establishes the correct entitlement with the claimant. To date 132 cases have been investigated and closed. These identified overpayments in 10 Housing Benefit, 35 Council Tax Reduction and 2 Council Tax Benefit cases.

Other Potential Irregularities

- 5.8 In September, Adult Social Care informed the Police about potential abuse of a client's monies by a relative.
- 5.9 In October an investigation commenced into a misuse of a direct payment in Adult Social Care.
- 5.10 During quarter 3, one case of suspected benefit fraud was referred to DWP for investigation which related to Bracknell Forest school ancillary staff. This is now being considered under the School's Disciplinary Procedures.
- 5.11 In December 2015, the Borough Treasurer reported an incident of large cash receipts to the National Crime Agency in his capacity as Anti-Money Laundering Officer.
- 5.12 Information has been provided to Wokingham Borough Council Fraud Team in respect of external family coordinators for the purposes of an ongoing investigation into potential irregularities in the Home Counties.

2014/15 AUDITS

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

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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											
Information Security in Schools Follow Up Central Memo (IT audit)	March 2015	13/7/15	No	N/A- Memo issued with no opinion					2	1	Final
Information Security in Schools Follow Up –Brakenhale (IT audit)	March 2015	9/6/15	No	N/A- Memo issued with no opinion					5		Final
Information Security in Schools Follow Up – Garth Hill (IT audit)	March 2015	9/6/15	No	N/A- Memo issued with no opinion					4	2	Final
Information Security in Schools Follow Up- Holly Spring Junior (IT audit)	March 2015	13/7/15	No	N/A- Memo issued with no opinion					3	2	Final
Information Security in Schools Follow Up- New Scotland Hill (IT audit)	March 2015	9/6/15	No	N/A- Memo issued with no opinion					4	2	Final
Information Security in Schools Follow Up- Winkfield St Mary's (IT audit)	March 2015	13/7/15	No	N/A- Memo issued with no opinion					5	2	Final

Audit	Start Date	Date Draft Report	Key Indicator Met *	Assurance Level				Recommendations			Status
				Significant	Satisfactory	Limited	None	Priority			
								1	2	3	
Information Security in Schools Follow Up- College Town Infants (IT audit)	March 2015	9/6/15	No	N/A- Memo issued with no opinion					1		Final
Corporate Services											
Network Infrastructure (IT audit)	18/2/15	24/7/15	No			X		5	6	1	Final
Environment, Culture and Communities											
Library IT System (IT audit)	23/3/15	11/6/15	No		X				8		Final

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2015/16 AUDITS

Audit	Start Date	Date Draft Report	Key Indicator Met	Assurance Level				Recommendations			Status
				Significant	Satisfactory	Limited	None	Priority			
								1	2	3	
Grants											
Bus Operators Grant	28/5/15	12/6/15	N/A	N/A – Grant certification							Final
Bus Subsidy Grant	4/8/15	4/9/15	N/A	N/A – Grant certification							Final
Disabled Facilities Grant	1/6/15	4/6/15	N/A	N/A – Grant certification							Final
Troubled Families Grant Phase 1 (May)	1/6/15	1/6/15	N/A	N/A – Grant certification							Final

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Audit	Start Date	Date Draft Report	Key Indicator Met	Assurance Level				Recommendations Priority			Status
				Significant	Satisfactory	Limited	None	1	2	3	
Troubled Families Grant Phase 2 (May)	26/5/15	29/5/15	N/A	N/A – Grant certification							Final
Pot Hole Grant	17/8/15	4/9/15	N/A	N/A – Grant certification							Final
Local Block Funding and Highways and Integrated Transport	17/8/15	4/9/15	N/A	N/A – Grant certification							Final
Additional highways maintenance grant	17/8/15	4/9/15	N/A	N/A – Grant certification							Final
Troubled Families (September)	19/8/15	30/9/15	N/A	N/A – Grant certification							Final
Sustainable Transport Grant	27/10/15		N/A	N/A – Grant certification							Work in progress
Troubled Families (January)											Not due - Qtr 4 audit
Green Deal											Not due - Qtr 4 audit
Council Wide Audits											
Procurement (Ltd 14/15)	15/6/15	17/8/15	Yes			X		2	7		Final
Procurement cards											Not due - Qtr 4 audit
Complaints Procedure	7/10/15	18/11/15	Yes						4	2	Final
Officers Expenses											Not due - Qtr 4 audit
Major projects – Governance arrangements											Not due - Qtr 4 audit
Data Quality Audit	27/7/15	12/8/15	Yes		X				3	1	Final
Grants made to third parties											Not due - Qtr 4 audit

Audit	Start Date	Date Draft Report	Key Indicator Met	Assurance Level				Recommendations			Status
				Significant	Satisfactory	Limited	None	Priority			
								1	2	3	
Print and Design – Shared service usage and monitoring	3/8/15	17/9/15	Yes		X				1	3	Final
IT Audits											
PCI compliance	17/11/14	20/10/15	Yes	X							Final
PSN/Network Infrastructure	22/9/15	10/11/15	Yes		X				1	2	Final
Capita ONE – Education system application audit	2/7/10	26/8/15	No		X				4		Final
Framework- application audit											Deferred to 16/17
Operating System											Deferred to 16/17
New CRM System											Deferred to 16/17
New HR/Payroll System											Not due - Qtr 4 audit ⁴
New Learning Development System											Deferred to 16/17
Arbitas IT application audit											Deferred to 16/17
Corporate Services											
Cash Management	12/10/15	5/11/15	Yes		X				3	3	Draft issued
Treasury Management											Cancelled
Creditors											Not due - Qtr 4 audit
Debtors	30/11/15	21/12/15	Yes								Work in progress
Main Accounting inc recs											Cancelled

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Audit	Start Date	Date Draft Report	Key Indicator Met	Assurance Level				Recommendations			Status
				Significant	Satisfactory	Limited	None	Priority			
								1	2	3	
Payroll											Not due - Qtr 4 audit
Registration Services	1/6/15	18/9/15	No		X				1	2	Final
Electoral Roll	20/7/15	10/9/15	No		X				4	1	Final
Fleet Management including Fuel Cards	26/6/15	17/8/15	No		X				8	1	Final
Home to School Transport											Not due - Qtr 4 audit
Members Allowances & Expenses	17/12/15										Work in progress
Surveying Services											Deferred to 2016/17
Council Tax	14/12/15										Work in progress
Business Rates	14/12/15										Work in progress
Children, Young People and Learning School Audits											
School Census- Kennel Lane	7/9/15	18/9/15	Yes	X							Final
School Census- Sandy Lane	28/9/15	20/10/15	Yes			X		1	1		Final
School Census- Jennett's Park	15/9/15	20/10/15	Yes		X				1		Final
School Census-St Michael's Easthamstead	21/9/15	20/10/15	Yes		X				1	1	Final
School Census- Crown Wood	1/10/15	20/10/15	Yes		X				1	1	Final
Binfield CE Primary School	19/5/15	23/6/15	Yes		X				10	4	Final
College Town Junior (Ltd 14/15)											Not due - Qtr 4 audit
Brakenhale Secondary	22/6/15	23/7/15	Yes			X		1	10	3	Final
Cranbourne CE Primary	7/5/15	27/5/15	Yes		X				9	4	Final

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Audit	Start Date	Date Draft Report	Key Indicator Met	Assurance Level				Recommendations			Status
				Significant	Satisfactory	Limited	None	Priority			
								1	2	3	
Crown Wood (Ltd14/15)	23/11/15										Work in progress
Edgbarrow Secondary	8/6/15	26/6/15	Yes		X				8	2	Final
Holly Spring Junior (Ltd 14/15)											Not due - Qtr 4 audit
Holly Spring Infants	22/4/15	11/5/15	Yes		X				6	1	Final
Jennett's Park Primary	15/9/15	5/10/15	Yes			X		1	8	1	Final
Kennel Lane	7/9/15	5/10/15	Yes			X		5	12	2	Draft issued
St Margaret Cltherow	27/4/15	4/6/15	Yes			X		1	10	2	Final
St Michael's E'hampstead CE Primary (Ltd14/15)	21/9/15	15/10/15	Yes			X		1	14	2	Final
The Pines	26/11/15										Work in progress
Sandhurst Secondary	1/6/15	15/7/15	Yes			X		1	13	2	Final
Sandy Lane	28/9/15		Yes			X		3	14	2	Final
Warfield CE Primary (Inc Nursery) (Ltd 14/15)											Not due - Qtr 4 audit
Wooden Hill											Not due - Qtr 4 audit
Imprests in Schools	7/12/15	23/12/15	Yes	N/A – Memo issued					4		Draft issued
Children, Young People and Learning Cross-Cutting School Audits											
Procurement in Schools follow up											Deferred to 2016/17
Children, Young People and Learning – Other Audits											
Services to Schools	6/10/15	4/11/15	Yes		X				4	1	Draft issued
Pupil referral services excl PRU	14/12/15										Not due - Qtr 4 audit
SEN											Deferred to 16/17
School Improvement	2/11/15	25/11/15	Yes		X				7	2	Draft

Audit	Start Date	Date Draft Report	Key Indicator Met	Assurance Level				Recommendations Priority			Status
				Significant	Satisfactory	Limited	None	1	2	3	
Programme											issued
Fostering											Not due - Qtr 4 audit
Direct Payments (Ltd 14/15)											Work in progress
Youth Offending Service	18/5/15	2/7/15	No		X				4	1	Final
Targeted Youth Support	12/5/15	31/7/15	No		X				4	4	Final
The Spot Youth Centre	16/7/15	28/8/15	Yes		X				5	1	Final
Children's Centre -Alders and Chestnuts	13/10/15	17/11/15	Yes		X				3	2	Draft issued
Children's Centres - Oaks & Hollies	13/10/15	17/11/15	Yes		X				3	1	Draft issued
Environment, Culture and Communities											
Bracknell Leisure Centre	9/11/15										Work in progress
Coral Reef - refunds and complimentary tickets	15/9/15	11/12/15	No	N/A –Memo issued					5	1	Draft issued
Easthampstead Park Conference Centre	28/9/15										Work in progress
The Look Out	29/6/15	1/10/15	No		X				6	2	Final
Leisure Cash Spot Checks											Not due - Qtr 4 audit
CIL											Not due - Qtr 4 audit
Highways Network management	23/7/15	8/9/15	Yes		X				6	1	Final
Development Control											Not due - Qtr 4 audit
Main Ringway Contract – Contract Management	1/7/15	11/9/15	Yes		X				3	2	Final
Street Cleansing Contract- Contract Management	28/5/15	16/10/15	Yes		X				4	3	Final
Landscape Contract-	10/8/15	16/10/15	Yes		X				5	2	Final

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Audit	Start Date	Date Draft Report	Key Indicator Met	Assurance Level				Recommendations			Status
				Significant	Satisfactory	Limited	None	Priority			
								1	2	3	
Contract Management											
RE3 – to be audited in quarter 1 under the Reading Borough Council Internal Audit Plan on Residents Permit Parking	N/A- Reading Internal Audit Report carried out on behalf of all RE3 partners								1	7	Final – Reading Audit Report
Adult Social Care, Housing and Health											
Better Care Fund	7/9/15	18/11/15	Yes		X			2	5	1	Draft issued
Electronic Monitoring and Billing	22/6/15	3/8/15	Yes		X				7	3	Final
Controccc payments											Not due - Qtr 4 audit
Drug and Alcohol Team	21/7/15	11/8/15	Yes		X				4	2	Final
Heathlands – residential & day services	29/6/15	28/8/15	Yes		X				6	6	Final
Emergency Duty Team	21/8/15										Work in progress
Direct payments											Not due - Qtr 4 audit
Contracting	14/9/15										Work in progress
Brokerage	7/9/15										Work in progress
Mental Health including community living											Not due - Qtr 4 audit
Housing Benefits and Council Tax Reduction	1/12/15										Work in progress
Homelessness											Not due - Qtr 4 audit
Housing Rents and											Not due -

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Audit	Start Date	Date Draft Report	Key Indicator Met	Assurance Level				Recommendations			Status	
				Significant	Satisfactory	Limited	None	Priority				
								1	2	3		
Deposits (Ltd 14/15)											Qtr 4 audit	
Public Health - Contracting, commissioning, spend against public health funding and contract management	8/6/15	13/8/15	Yes		X				1			Final

FOLLOW UP OF 2014/15 LIMITED ASSURANCE AUDIT REPORTS

DIRECTORATE	AUDITS WITH LIMITED ASSURANCE CONCLUSION	UPDATE AS AT 4/9/2015
ADULT SOCIAL CARE, HEALTH AND HOUSING	HEATHLANDS	Now re-audited and a satisfactory opinion was given.
	DIRECT PAYMENTS	Audit due to take place in quarter 4 of 2015/16.
	COUNCIL WIDE PROCUREMENT	Re-audited in quarter 1 of 2015/16 and a limited assurance opinion was given again. Details of this are given in Section 3.4.
CORPORATE SERVICES	NETWORK INFRASTRUCTURE	Now re-audited during quarter 3 under the PSN/Network Infrastructure audit and a satisfactory opinion has been given.
	SURVEYORS SERVICES	Audit due to take place in quarter 1 of 2016/17 to allow arrangements with the new reactive maintenance contractor to bed down.
	DEBTORS	Now re-audited and awaiting issue of audit report.
	CREDITORS	Audit in progress.
	COUNCIL WIDE PAYMENT CARD INDUSTRY (PCI) STANDARDS	Now re-audited and a significant assurance opinion was given.
CHILDREN, YOUNG PEOPLE AND LEARNING-SCHOOL AUDITS	ST MICHAEL'S EASTHAMPSTEAD	St Michael's Easthampstead was re-audited during 2015/16 and a limited assurance has been given again. Details of this are given in Section 3.4.
	COLLEGE TOWN JUNIOR SCHOOL	Audit due to take place in quarter 4 of 2015/16.
	HOLLY SPRING JUNIOR SCHOOL	Audit due to take place in quarter 4 of 2015/16.
	CROWN WOOD SCHOOL	Now re-audited and awaiting issue of audit report.
	WARFIELD SCHOOL	Audit due to take place in quarter 4 of 2015/16.
	DIRECT PAYMENTS	Audit started on 16th November 2015.

CHILDREN, YOUNG PEOPLE AND LEARNING-OTHER AUDITS	PUPIL REFERRAL SERVICE	Audit to be carried out in quarter 4 of 2015/16.
ENVIRONMENT, CULTURE AND COMMUNITIES	EASTHAMPSTEAD PARK CONFERENCE CENTRE	Audit started 28/9/15.

FOLLOW UP OF RECOMMENDATIONS

AUDIT	RECOMMENDATIONS BY PRIORITY			MANAGEMENT RESPONSE ON PROGRESS ON IMPLEMENTATION
	1	2	3	
2013/14				
Council Wide Audits				
Council Wide Absence Management		7	2	All implemented
Banner Stationary Contract		3	1	All implemented
Corporate Services				
Localisation of Business Rates		6	4	All implemented
Corporate Services - IT Audits				
Change Management		5		All implemented
Software Licenses		3		All implemented
Disaster Recovery		2	2	1 priority 2 outstanding on disaster recovery testing. To be carried out after upgrade/replacement of the backup system.
Environment, Culture and Communities				
Adaptations		3	3	All implemented
Adult Social Care, Housing and Health				
Blue Badges		3	3	All implemented
Social Fund Payments		3	3	All implemented
Adult Social Care, Housing and Health - IT Audits				
Rostering Monitoring System		3		All implemented
2014/15				
Council Wide Audits				
DBS checks excl schools		2	1	All implemented
Hospitality Registers		3	2	All in progress
Capital & Fixed assets		2	1	All implemented
BACS		2	3	4 recs implemented and 1 partially implemented.
IT Audits				
Mobile device		6	2	All implemented
Remote Working		2		All implemented
ICT helpdesk		6		3 implemented, 2 partially implemented and 1 not implemented yet but will be over the next few months
School Back-Ups		4		All of the necessary actions have

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				been completed
Library IT System		8		All implemented
E+ Card and system (IT/ general Audit)		3	2	All actions have been updated other than action 5 which was not to be implemented until a new contract starts in 2017.
Corporate Services				
Budgets/Budgetary Control		2	1	Agreed action have been implemented
Cash Management		1		All implemented
Treasury management		1		Implemented
Main Accounting inc recs			1	Implemented
Insurance		1	2	All implemented
Data Protection		3	2	3 implemented, 1 ongoing as it is SIRO training for the new Borough Solicitor and 1 will be addressed at the Governance training for Members.
Commercial Properties inc. rents and estates management		2	3	All implemented
Health and Safety		6		All implemented except rec 5 on management system. New system being piloted but some information security issues to be addressed with the supplier.
Children, Young People and Learning School Audits				
Ascot Heath CE Junior		9	4	Rec 13 outstanding, recs 4,6 and 9 are partially implemented and the other 9 recs are implemented
Birch Hill Primary		6	3	8 implemented and 1 partially implemented
College Town Infants		4	2	All implemented
Foxhill Primary		7	11	2 outstanding, 2 partially implemented and 14 implemented
Garth Hill		8	5	All implemented
Harmanswater Primary		7	6	Three recommendations outstanding for implementation in early 2016 and 1 is no longer considered practical
Owlsmoor Primary		1	3	All implemented
St Joseph's RC Primary		2	3	All implemented
St Michael's Sandhurst CE Primary		4	9	1 recommendation on policies update outstanding
Cranbourne School		9	4	9 implemented , 3 outstanding and one partially implemented
Wildmoor Heath		9	5	10 implemented, 3 partially

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				implemented and 1 outstanding
Children, Young People and Learning				
Lifelong Learning			1	Implemented
After/Leaving Care Team		4	2	All implemented as far as practical or no longer applicable
Larchwood Unit		6	2	7 implemented and 1 partially implemented
Environment, Culture and Communities				
Reconciliations		6	2	All implemented except rec3 as awaiting new licensing system in April which will record the income
Library central processes (incl stock control)		6	2	All implemented
Public Transport		2		All implemented
Building control and land charges		3	3	Recs 1 and 2 partly actioned. Rec 3,4 and 5 implemented
Car Parking - follow up			1	Implemented
Cemetery & Crematorium		3	2	All implemented
Waste Collection		8	3	All implemented
Adult Social Care, Housing and Health				
Performance Financial Assessments & benefit Checks		2	2	All implemented
Deputyships & Appointees		2	2	All implemented
Older people and long term conditions		4		All implemented
Bridgewell Unit		10	4	All implemented
Learning Disability Provider Service		1	8	All implemented
Housing Applications etc.		6		5 implemented and 1 partially implemented
Forestcare		6	2	All implemented

**TO: GOVERNANCE AND AUDIT COMMITTEE
27 JANUARY 2016**

TREASURY MANAGEMENT REPORT 2016/17 AND MID-YEAR REVIEW 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 Management Strategy (and associated documents) 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 of the Treasury Management activities of the authority.
- 1.5 This report seeks to achieve both these requirements of updating Members on progress in 2015/16 and to review the Treasury Management Report for 2016/17.

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 2016/17 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 and for that body to review progress of the Council's treasury management activities. 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 2015/16
 - 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 2015/16
 - A review of compliance with Treasury and Prudential Limits for 2015/16

Economic Update

- 5.2 UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, possibly being equal to that of the US. However, quarter 1 of 2015 was weak at +0.4% though there was a rebound in quarter 2 to +0.7%. Growth is expected to weaken to about +0.5% in quarter 3 as the economy faces headwinds for exporters from the appreciation of Sterling against the Euro and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme
- 5.3 The August Bank of England Inflation Report forecast was notably subdued in respect of inflation which was forecast to barely get back up to the 2% target within the 2-3 year time horizon. However, with the price of oil taking a fresh downward direction and Iran expected to soon re-join the world oil market after the impending lifting of sanctions, there could be several more months of low inflation still to come, especially as world commodity prices have generally been depressed by the Chinese economic downturn.
- 5.4 There are therefore considerable risks around whether inflation will rise in the near future as strongly as had previously been expected; this will make it more difficult for the central banks of both the US and the UK to raise rates as soon as was being forecast until recently, especially given the recent major concerns around the slowdown in Chinese growth, the knock on impact on the earnings of emerging countries from falling oil and commodity prices, and the volatility we have seen in equity and bond markets in 2015 so far, which could potentially spill over to impact the real economies rather than just financial markets.

Treasury Management Strategy Statement Review

- 5.5 The Treasury Management Strategy Statement (TMSS) for 2015/16 was approved by the Council on 25th February 2015. 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. The majority of the underspend relates to timing differences on larger schemes including schools, Coral Reef and the Town Centre redevelopment.

Department	Approved Budget 2015/16 £'000s	Cash Budget 2015/16 £'000s	Estimated Out-turn 2015/16 £'000s	Cash Budget 2016/17 £'000s	(Under) /Over Spend £'000s
Adult Social Care, Health & Housing	5,290.1	5,290.1	2,996.3	0.0	0.0
Children, Young People and Learning	24,839.0	23,064.8	14,242.1	1,774.3	0.0
Council Wide	13,974.5	8,546.7	5,653.4	5,427.8	-474.1
Corporate Services	616.4	412.9	386.6	203.5	0.0
Environment, Culture & Communities	21,999.4	18,150.0	6,909.7	3,780.5	-67.7
TOTAL CAPITAL PROGRAMME	66,719.4	55,464.5	30,188.1	11,186.1	- 541.8

Review of Investment Portfolio 2015/16

- 5.7 The Council held £36.878m of investments as at 31 December 2015 and the investment portfolio yield for the first nine months of the year is 0.55% against a benchmark (Local Authority 7-Day Rate) of 0.35%.

Investment	Maturity	Amount (£)	Average Rate (%)
Money Market Funds			
Standard Life Liquidity Fund	1 Day	5,669,000	0.4970
Black Rock Sterling Liquidity	1 Day	100,000	0.4416
Federated Prime Rate	1 Day	4,412,000	0.4991
Goldman Sachs	1 Day	100,000	0.4357
Aberdeen Liquidity	1 Day	6,997,000	0.5139
Deutsche Managed Sterling Fund	1 Day	100,000	0.4403
		17,378,000	
Fixed Term Deposits			
Nationwide	11/02/2016	3,000,000	0.6600
Santander	29/02/2016	3,500,000	0.5500
Barclays	31/03/2016	3,500,000	0.6080
Santander	29/02/2016	2,500,000	0.5500
Lloyds	07/06/2016	3,500,000	0.7500
Lloyds	29/04/2016	3,500,000	0.6500
		19,500,000	
Total Investments		36,878,000	

- 5.8 The 2015/16 interest budget assumed that an average interest rate of 0.5% 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 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 2015/16 and as such at least an additional £100,000 of investment income has been projected for the year, against a budget of £124,000.

Compliance with Treasury and Prudential Limits for 2015/16

- 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 Report 2016/17

- 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 2016/17 (annex A) was approved by the Executive, as a part of the Council's overall budget proposals, on 15 December 2015 and outlines the Council's Prudential Indicators for 2016/17 to 2018/19 in addition to setting out the expected treasury strategy and 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 24 February 2016.

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 2016/17 – 2018/19 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, set out in Annex A(iii), the maximum amount of debt the Council could afford in the short term, but which would not be sustainable in the longer term.
 - 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 DCLG 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 of less than 12 months. As such there are no changes to the Council’s Investment Criteria from the previous year.
 - 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 is unlikely to be materially impacted by interest rate movements in the next 12 months – a position similar to 2015/16.
 - The Council has embarked 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 and has been allowed for in the General Fund Revenue Account.

The Capital Prudential Indicators 2016/17 – 2018/19

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 2016/17 to 2018/19 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 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, 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	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000
Capital Expenditure	68,885	31,395	13,903
Financed by:			
Capital receipts	5,000	9,000	4,200
Capital grants & Contributions	17,498	14,096	11,014
Net financing need for the year	46,387	8,299	-1,311

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:

	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000
Capital Financing Requirement			
Opening CFR	68,878	113,282	134,389
Movement in CFR	44,404	21,107	193

Movement in CFR represented by			
Net financing need for CFR purposes #	46,583	24,669	4,000
Less MRP/VRP and other financing movements	2,179	3,562	3,807
Movement in CFR	44,404	21,107	193

2017/18 includes impact of carry-forward from 2016/17

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.

	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Ratio	-0.16%	0.77%	1.18%

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 2016/17	Forward Projection 2017/18	Forward Projection 2018/19
Council Tax - Band D	£6.95	£14.50	£6.23

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. Historically the Council has not needed to borrow externally as it has had sufficient revenue investments to fund the capital programme. However it has still needed 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 2016/17 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.
- 3) 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 2016/17 charge will be based on 2015/16 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 – 2018/19

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 2016/17 to 2018/19. 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.

	2015/16 Estimated	2016/17 Estimated	2017/18 Estimated	2018/19 Estimated
External Debt				
Debt at 31 March	0	£32m	£40m	£38m
Investments				
Investments at 31 March	£15m	0	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 2016/17 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	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Borrowing	£108m	£128m	£129m
Other long term liabilities	£16m	£16m	£15m
Total	£124m	£144m	£144m

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	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Borrowing	£103m	£123m	£124m
Other long term liabilities	£16m	£16m	£15m
Total	£119m	£139m	£139m

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 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 2015	0.50	2.30	3.60	3.60
Mar 2016	0.50	3.00	3.70	3.70
Jun 2016	0.75	3.10	3.80	3.80
Sep 2016	0.75	3.20	3.90	3.90
Dec 2016	1.00	3.30	4.00	4.00
Mar 2017	1.00	3.40	4.10	4.10
Jun 2017	1.25	3.50	4.20	4.20
Sep 2017	1.50	3.50	4.30	4.30
Dec 2017	1.50	3.50	4.30	4.30
Mar 2018	1.75	3.50	4.30	4.30

* Borrowing Rates

UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, probably being second to the US. However, quarter 1 of 2015 was weak at +0.4% though there was a rebound in quarter 2 to +0.7% before weakening again to +0.5% in quarter 3. The November Bank of England Inflation Report included a forecast for growth to remain around 2.5 – 2.7% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero since February 2015 this year. Investment expenditure is also expected to support growth. However, since the August Inflation report was issued, worldwide economic statistics have distinctly weakened and the November Inflation Report flagged up particular concerns for the potential impact on the UK.

The Inflation Report was notably subdued in respect of the forecasts for inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. However, once the falls in oil, gas and food prices over recent months fall out of the 12 month calculation of CPI, there will be a sharp tick up from the current zero rate to around 1 percent in the second half of 2016. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon was the biggest since February 2013. There is considerable uncertainty around how quickly inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate.

However what is certain is that investment returns are likely to remain relatively low during 2016/17 and beyond.

Borrowing Strategy 2016/17

The Council still will retain investments of at least £15m moving into 2016/17, however given the level of capital investments planned by the authority for 2016/17 and beyond, it will be required to borrow externally within the next 12 to 24 months and probably before the end of 2016/17. 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.

However 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 2016/17 – 2018/19

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.

The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these "uplifts" with the timing of the process determined by regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory capital levels. In some cases, these factors have "netted" each other off, to leave underlying ratings either unchanged or little changed. A consequence of these new methodologies is that they have also lowered the importance of the (Fitch) Support and Viability ratings and have seen the (Moody's) Financial Strength rating withdrawn by the agency.

In keeping with the agencies' new methodologies, the rating element of our own credit assessment process now focuses solely on the Short and Long Term ratings of an institution. While this is the same process that has always been used for Standard

& Poor's, this has been a change in the use of Fitch and Moody's ratings. It is important to stress that the other key elements to our process, namely the assessment of Rating Watch and Outlook information as well as the Credit Default Swap (CDS) overlay have not been changed.

It is important to stress that these rating agency changes do not reflect any changes in the underlying status or credit quality of the institution. They are merely reflective of a reassessment of rating agency methodologies in light of enacted and future expected changes to the regulatory environment in which financial institutions operate. While some banks have received lower credit ratings as a result of these changes, this does not mean that they are suddenly less credit worthy than they were formerly. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign government support has effectively been withdrawn from banks. They are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In fact, in many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now. However, this is not universally applicable, leaving some entities with modestly lower ratings than they had through much of the "support" phase of the financial crisis.

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 Enhanced money market funds (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	£0m	0 days
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 2016/17 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 2016.

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	100	-100

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:

	2016/17	2017/18	2018/19
Interest rate Exposures			
	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	£103m	£123m	£124m
Limits on variable interest rates based on net debt	£103m	£123m	£124m
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 2016/17 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] 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?</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>
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/</u> <u>Loan</u> <u>Capital?</u>	<u>Repayable/</u> <u>Redeemable</u> <u>within 12</u> <u>months?</u>	<u>Security /</u> <u>Minimum Credit</u> <u>Rating?</u>	<u>Circumstance of</u> <u>use</u>	<u>Maximum</u> <u>maturity of</u> <u>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	<i>5 years</i>
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	<i>10 years including but also including the 10 year benchmark gilt</i>

Investment	(A) Why use it? (B) Associated risks?	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum credit rating **	Circumstance of use	Maximum maturity of investment
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.	<i>5 years</i>
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	<i>1 year</i>

**TO: GOVERNANCE AND AUDIT COMMITTEE
27 JANUARY 2016**

CHANGE IN ACCOUNTING POLICY FOR THE HIGHWAYS NETWORK ASSET Borough Treasurer

1 PURPOSE OF REPORT

- 1.1 The valuation basis of the Highways Network Asset (formerly referred to as Infrastructure Assets) is changing and this will need to be reflected in the Council's accounts from 2016/17. This report provides an overview of the impact on the Council.

2 RECOMMENDATION

That the Committee:

- 2.1 **Note the change in Accounting Policy and the plan to meet the new requirements outlined in Annex A.**

3 REASONS FOR RECOMMENDATION

- 3.1 The CIPFA Code of Practice on Local Authority Accounting 2016/17 will require the Highways Network Asset to be valued on a Depreciated Replacement Cost (DRC) basis.

4 ALTERNATIVE OPTIONS CONSIDERED

- 4.1 None.

5 SUPPORTING INFORMATION

5.1 Introduction

- 5.1.1 Local Authorities have been required to provide figures for Infrastructure Assets on a Depreciated Replacement Cost (DRC) basis for the Whole of Government Accounts (WGA) for a number of years. However in the Council's accounts, the value of these assets has continued to be measured and reported on a Depreciated Historic Cost (DHC) basis. Only the historic values included in the Council's accounts have been subject to external audit.
- 5.1.2 To ensure consistency across public sector bodies, the Council will be required to account for transport infrastructure assets on a DRC basis in 2016/17. As this is a change in accounting policy it will need to be applied retrospectively. Normally this would mean a third Balance Sheet would need to be produced but CIPFA has recently confirmed that it will only be necessary to restate the 31 March 2016 position for comparison purposes.
- 5.1.3 To put this change into perspective, the value of Infrastructure Assets on the Council's Balance Sheet is likely to increase from around £48m to approximately £1.7 billion, a more than 30 fold increase in value. The value of all Long Term Assets was less than a third of this (£528m) as at 31/03/15.

5.2 The Highways Network Asset

5.2.1 The Highways Network Asset (HNA) covers the 7 categories of Infrastructure Assets described in the CIPFA Code of Practice on Transport Infrastructure Assets (The Code), namely:

- Carriageways
- Footways and Cycletracks
- Structures
- Street Lighting
- Street Furniture
- Traffic Management Systems
- Land

5.2.2 Infrastructure Assets not included in the classification descriptions above are not part of the Highways Network Asset and would continue to be reported on a DHC basis. The highways network teams would need to establish if the Council has any infrastructure assets that fall outside the 7 main categories to satisfy the auditors that an appropriate classification has been made. The Code includes details of the measurement and valuation bases for each of the 7 categories.

5.3 Impact on the Statement of Accounts and Audit Process

5.3.1 A separate accounting policy will be required for the HNA which will need to provide details of the measurement bases, depreciation methods and the useful lives used for each category. The methods and significant assumptions applied in estimating each category's current values will also need to be provided for inclusion in a new note to the accounts. The value of the HNA will appear as a separate line in the Balance Sheet.

5.3.2 CIPFA has already confirmed that the Highways Network Asset will be treated as a single asset for financial reporting purposes. A separate note will be required to break down the in-year movements for the HNA. Gross Replacement Cost and Accumulated Depreciation will need to be broken down across a number of headings and the system reports will need to be detailed enough to enable this.

5.3.3 The HNA will be included in the main asset register but the detailed records will be held in the systems used by the Highways Asset Management Team within Environment and Public Protection (for everything other than traffic management) and Highways Network Management within Planning and Transport.

5.3.4 Unlike the information provided for the WGA, both the systems used and figures provided will be subject to full audit scrutiny. As only high level information will be held in the main asset register, the primary focus of External Audit will be on the systems and procedures used within Environment, Culture and Communities. To obtain some comfort that these are robust, Internal Audit will carry out a review early in 2016/17.

5.3.5 Discussions are currently taking place between CIPFA and the main accounting firms on how centrally provided information (valuation toolkits) will be audited and how the material change in the value of the Balance Sheet will be addressed in the audit of the main statements. It is likely that centrally provided systems and assumptions will be assessed at a regional or national level. For any in-

house/spreadsheet solutions the auditors will undertake direct testing of the system. In either case they will be interested in the assumptions being made to value the assets and whether national or local rates have been used. Due to the material values involved, this area will be a priority for External Audit and additional audit fees are likely to arise as a result.

5.4 Resource Implications

- 5.4.1 The deadlines for the Council's accounts are much tighter than for the WGA and some of the work required will have to be progressed in this financial year and early in next financial year. Although the code change will come into effect in 2016/17, we will need to include information in the 2015/16 accounts on the change in accounting policy and the financial impact of the change. This information would need to be based on the 31/03/16 position and therefore the end of year figures would need to be available a lot earlier than in previous years. For the WGA, the deadline for this information has been in July. For the 2015/16 accounts, the information would be included in a note to the accounts and would need to be provided by the middle of May.
- 5.4.2 For 2016/17, where the information would need to be reflected in the main accounting system (Agresso), the deadline for the DRC figures would be towards the end of April. It's therefore important that the resource implications of these much tighter deadlines are considered and addressed.
- 5.4.3 The key tasks required are outlined in Annexe A. Work to be undertaken by Corporate Finance will be absorbed within existing resources. The Internal Audit review will be built into the 2016/17 Audit Plan and is expected to take place in quarter 1.
- 5.4.4 A detailed piece of work is currently underway to ensure that DRC figures can be produced for Traffic Management Systems. For the other 6 categories it is believed sufficient information is already held within the asset inventories. The tighter timescales will have an impact on day to day activities in Environment, Culture and Communities but additional resources will not be required.

6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

- 6.1 The Accounts and Audit (England) Regulations 2015 will require the 2016/17 Statement of Accounts to be formally approved by Members (a Committee or Council) and signed by the Chairman / Mayor by 30 September 2017 and for the accounts to be signed by the appointed auditor by 30 September 2017.

Borough Treasurer

- 6.2 The CIPFA Code of Practice on Local Authority Accounting is based on approved accounting standards issued by the International Accounting Standards Board. The Council's Statement of Accounts is drawn up in accordance with the Code of Practice which will reflect the change in Accounting Policy for the HNA from 2016/17.
- 6.3 The internal resource implications of introducing this change are outlined in section 5.4. No additional internal costs are expected to arise from the change but it is likely that External Audit fees will increase.

Equalities Impact Assessment

6.3 None required.

Strategic Risk Management Issues

6.4 There are none arising directly from this report.

7 CONSULTATION

Not applicable.

Contacts for further information

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Task	Responsibility	Timescales
Confirm Accounting Requirements.	Corporate Finance	December 2015
Identify Fixed Asset System Changes.	Corporate Finance	December 2015
Liaise with Agresso so that the setup of the Fixed Asset Register (FAR) can be amended.	Corporate Finance	Jan-July 2016
Report to Governance and Audit Committee	BT/Director ECC	Jan 2016
Cross Berkshire Workshop on the HNA	Corporate Finance & Engineers	March 2016
Classification of assets between the Highways Network Asset (HNA) and other infrastructure assets (if required).	Highways Asset Management	March 2016
Complete analysis of inventory for Traffic Management Systems.	Highways Network Mgt.	March 2016
Internal Audit review of systems, procedures and reports.	Internal Audit	April – June 2016
Provide financial information for each category for the 2015/16 accounts (DRC figures as at 31/03/16).	Highways Asset & Network Mgt.	Mid May 2016
Audit of 2015/16 Statement of Accounts.	Ernst & Young	July – Sept 2016
Provide information for HNA Accounting Policy – assumptions, measurement bases, depreciation methods and useful lives.	Highways Asset & Network Management	July 2016
Write Accounting Policy and construct disclosure Note for the HNA.	Corporate Finance	July – August 2016
Implementation of any Internal Audit recommendations.	Highways Asset & Network Mgt.	July-Dec 2016
Restate 31 March 2016 Balance Sheet	Corporate Finance	September 2016
Provide financial information for each category for inclusion in the FAR and 31 March 2017 Balance Sheet.	Highways Asset & Network Mgt.	April 2017
Update FAR and Agresso and produce the Statement of Accounts.	Corporate Finance	May 2017
Audit of 2016/17 Statement of Accounts.	Ernst & Young	July – Sept 2017

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