Governance, Audit, Risk Management and Standards Committee AGENDA

DATE: Tuesday 30 January 2018

TIME: 7.30 pm

VENUE: Committee Rooms 1 & 2, Harrow Civic Centre, Station Road, Harrow, HA1 2XY

MEMBERSHIP (Quorum 3)

Chair: Councillor Antonio Weiss

Councillors:

Ghazanfar Ali
Maxine Henson
Mrs Rekha Shah
Amir Moshenson
Kanti Rabadia (VC)
Bharat Thakker

Reserve Members:

1. Nitin Parekh
2. Margaret Davine
3. Krishna Suresh
4. David Perry

1. Pritesh Patel
2. John Hinkley
3. Chris Mote

Contact: Miriam Wearing, Senior Democratic Services Officer
Tel: 020 8424 1542 E-mail: miriam.wearing@harrow.gov.uk

Harrow COUNCIL
LONDON

Useful Information

Meeting details:

This meeting is open to the press and public.

Directions to the Civic Centre can be found at:
http://www.harrow.gov.uk/site/scripts/location.php.

Filming / recording of meetings

The Council will audio record Public and Councillor Questions. The audio recording will be placed on the Council's website.

Please note that proceedings at this meeting may be photographed, recorded or filmed. If you choose to attend, you will be deemed to have consented to being photographed, recorded and/or filmed.

When present in the meeting room, silent mode should be enabled for all mobile devices.

Meeting access / special requirements.

The Civic Centre is accessible to people with special needs. There are accessible toilets and lifts to meeting rooms. If you have special requirements, please contact the officer listed on the front page of this agenda.

An induction loop system for people with hearing difficulties is available. Please ask at the Security Desk on the Middlesex Floor.

Agenda publication date: Monday 22 January 2018

AGENDA - PART I

1. ATTENDANCE BY RESERVE MEMBERS

To note the attendance at this meeting of any duly appointed Reserve Members.

Reserve Members may attend meetings:-

(i) to take the place of an ordinary Member for whom they are a reserve;
(ii) where the ordinary Member will be absent for the whole of the meeting; and
(iii) the meeting notes at the start of the meeting at the item 'Reserves' that the Reserve Member is or will be attending as a reserve;
(iv) if a Reserve Member whose intention to attend has been noted arrives after the commencement of the meeting, then that Reserve Member can only act as a Member from the start of the next item of business on the agenda after his/her arrival.

2. DECLARATIONS OF INTEREST

To receive declarations of disclosable pecuniary or non pecuniary interests, arising from business to be transacted at this meeting, from:

(a) all Members of the Committee;
(b) all other Members present.

3. MINUTES (Pages 5 - 10)

That the minutes of the meeting held on 6 December 2017 be taken as read and signed as a correct record.

4. PUBLIC QUESTIONS *

To receive any public questions received in accordance with Committee Procedure Rule 17 (Part 4B of the Constitution).

Questions will be asked in the order in which they were received. There will be a time limit of 15 minutes for the asking and answering of public questions.

[The deadline for receipt of public questions is 3.00 pm, 25 January 2018. Questions should be sent to publicquestions@harrow.gov.uk

No person may submit more than one question].

5. PETITIONS

To receive petitions (if any) submitted by members of the public/Councillors under the provisions of Committee Procedure Rule 15 (Part 4B of the Constitution).

6. DEPUTATIONS

To receive deputations (if any) under the provisions of Committee Procedure Rule 16 (Part 4B) of the Constitution.

7. REFERENCES FROM COUNCIL AND OTHER COMMITTEES/PANELS

To receive references from Council and any other Committees or Panels (if any).

8. INFORMATION REPORT - EXTERNAL AUDIT PLAN 2017 - 18 (Pages 11 - 34)

Report of the Director of Finance

9. INFORMATION REPORT - AUDIT REPORT ON GRANT AND RETURNS CERTIFICATIONS 2016-17 (Pages 35 - 46)

Report of the Director of Finance

10. INFORMATION ITEM - REVISED INTERNAL AUDIT PLAN 2017/18 (Pages 47 - 58)

Report of the Corporate Director Resources and Commercial

11. TREASURY MANAGEMENT STRATEGY STATEMENT INCLUDING PRUDENTIAL INDICATORS, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2018/19 (Pages 59 - 102)

Report of the Director of Finance

12. ANY OTHER URGENT BUSINESS

Which cannot otherwise be dealt with.

AGENDA - PART II - NIL

*** DATA PROTECTION ACT NOTICE**
The Council will audio record item 4 (Public Questions) and will place the audio recording on the Council's website, which will be accessible to all.

[**Note:** The questions and answers will not be reproduced in the minutes.]

GOVERNANCE, AUDIT, RISK MANAGEMENT AND STANDARDS COMMITTEE

MINUTES

6 DECEMBER 2017

Chair: * Councillor Antonio Weiss

Councillors:

* Ghazanfar Ali	† Kanti Rabadia
* Maxine Henson	* Mrs Rekha Shah
* Amir Moshenson	* Bharat Thakker

* Denotes Member present
† Denotes apologies received

200. Attendance by Reserve Members

RESOLVED: To note that there were no Reserve Members in attendance.

201. Change in Membership

RESOLVED: That the appointment of Councillor Kanti Rabadia in place of Councillor Barry Macleod-Cullinane as a member of the Committee and the appointment of Councillor John Hinkley as a Reserve be noted.

202. Appointment of Vice-Chair

RESOLVED: To appoint Councillor Kanti Rabadia as Vice-Chair of the Committee for the remainder of the 2017/2018 Municipal Year.

203. Declarations of Interest

RESOLVED: To note that there were no declarations of interests made by Members.

204. Minutes

RESOLVED: That the minutes of the meeting held on 5 September 2017, be taken as read and signed as a correct record.

205. Public Questions, Petitions or Deputations

RESOLVED: To note that no public questions, petitions, or deputations were received at this meeting.

206. References from Council and other Committees/Panels

RESOLVED: To note that no references had been received.

RESOLVED ITEMS

207. Treasury Management Strategy Statement and Annual Investment Strategy: Mid Year Review 2017-18

The Committee considered a report on the mid-year review of treasury management activities for 2017/18. The Director of Finance introduced the report and drew particular attention to the fact that no external borrowing had been taken in the financial year to date due to the use of internal borrowing and the reduction of cash balances in accordance with Council policy. However, should the balances fall below the £30m trigger then temporary borrowing would be taken to minimise borrowing costs. The Committee was informed that the Council held £53.4m of investment balances as at 30 September 2017. No debt restructuring had been undertaken during the first six months of the year as there was no financial benefit due to penalties forf early repayment.

During discussion on the report, the following principal points were noted in response to comments and questions from individual Members:

- the reduction in the investments held by the Council, from £65.1m as at 31 March 2017 to £53.4m as at 30 September 2017, was due to short term investments as the small balances prevented longer term investment. Interest rates remained low although there had been a small improvement since a rise in the base rate;

- the counterparties actively in use during the period had been Lloyds, Royal Bank of Scotland PLC and Svenska Handelsbanken:

- with reference to the HRA debt headroom, the Council was at its borrowing debt limit on the HRA which had its own rules and regulations. There was not a target level of headroom and the Council had been at the debt cap, which was set externally, for many years. The situation was monitored to ensure that the debt cap was not exceeded;

- officers would liaise with the Department for Communities and Local Government (DLCG) with regard to the potential in the recent budget for some Local Authorities to increase debt. However the Council would need to ensure capacity to repay any such debt.

In response to questions from Members of the Committee, the Director of Finance undertook to circulate the following information to the Committee:

- confirmation of the expected borrowing requirement before the end of the financial year (the last sentence of paragraph 19 refers);

- clarification of the capital financial requirement in table 5 and the change in net borrowing after investment balances were taken into account in table 7;

- the schedule that specified the difference between specified and non specified;

- information on the source of the authorised limit beyond which external debt was prohibited.

RESOLVED: That the report be noted.

208. INFORMATION REPORT - Annual Audit Letter 2016-17

The Committee received a report on the Annual Audit letter from the Council's external auditors which summarised the key conclusions from the Auditor's work. The Director of Finance introduced the report and drew attention to the unqualified audit opinion and value for money conclusion. The four recommendations referred to on page 4 of the Annual Audit letter had been considered by the Committee at its meeting in September 2017 with one already implemented and the other three being worked upon during the second half of the financial year. The officers would ensure that all the recommendations were implemented.

Particular attention was drawn to the requirement for the 2017/18 accounts to be closed by 30 May 2018 and to be signed off two months earlier than the 2016/17 accounts.

Members noted that there was increased pressure on achieving a breakeven position because the Council still needed to generate savings but also had additional demand led spending in Children's and Adults Services. The Auditors recognised the additional controls that the Authority had put in place to mitigate these overspends.

In response to a question, the Committee was informed that the £8000 audit fees for audit related services was in relation to an objection in 2014/15 that concluded in November 2016.

A Member referred to the identification of the arrangements put in place to mitigate the savings targets of £83m to be achieved between 2015/16 to 2018/19 and sought an update on progress. The Director of Finance stated that the report to Cabinet on the draft 2018/19 budget presented a balanced position. It was noted that the Authority's net controllable revenue budget of £141m was the element of the budget that the Authority could exercise control over and from where the savings must be found. Factors influencing the current position included a reduction in grants, provision for pay awards and capital investment. In response to a question the officer stated that savings made to manage the budget gap did not result in a reduction in the revenue budget.

RESOLVED: That the report be noted.

209. INFORMATION REPORT - Internal Audit and Corporate Anti-Fraud Mid-Year Report and Plan Update 2017/18

The Committee considered a report that set out progress against the 2017/18 Internal Audit and Corporate Anti-fraud plans. The report also covered progress in Quarter 3 and an update on the Internal Audit annual plan.

The Head of Internal Audit and Corporate Anti-Fraud introduced the report and detailed performance against the performance indicators. The Committee was informed that overall 42% of the plan had been completed at mid-year which was 3% lower than the target of 45%. This was due to resources being diverted to three emerging risks in Quarter 2 of 2017/18 as well as the loss of the interim risk management resource requiring a diversion of resources to update the register for Quarters 1and 2. With regard to performance indicator 2, there had been a decision to delay four of the follow ups due to the maternity leave of an Assistant Auditor. These were not expected to determinately effect the achievement of the performance target at year end.

Particular attention was drawn to emerging risks with regard to the regeneration capital programme and special needs transport which would require the diversion of resources. The Head of Internal Audit and Corporate Anti-Fraud undertook to confirm at the next meeting which parts of the Plan could not be undertaken as a result of diverting resources.

A Member sought further information on Parking Tickets Overpayments and was informed that this work was reaching completion and the assurance would be reported to the Committee in due course.

Another Member sought clarification on whether the investigation regarding payments to Teaching Assistants reflected a widespread issue. The officer reported that it concerned inappropriate decisions made by a particular school and not the process. The school concerned had agreed to implement the recommendations when presented to it and any lessons learnt would be fed into the audit work at other schools.

The Committee noted progress against the Corporate Anti Fraud Team Plan 2016/17. In response to a question from a Member as to whether any new forms of fraud were emerging, the officer stated that there was nothing of major concern. It was a continual process in conjunction with a proactive London group and information was drawn from a number of different resources.

With regard to a question on the outcomes and savings summary mid year 2017-18, it was noted some were live and some closed off. A Member suggested that it would be helpful to know how many were live. Another Member sought clarification as to whether the savings, £1.47m at mid year point, represented an equilibrium of staffing against savings. The officer informed the Committee that as a high proportion of anti-fraud work was preventative there was not an income stream. Whilst an additional staff member would no doubt identify fraud loss or potential fraud loss there was no direct cashable benefit and investigative fraud was not seen as a profit centre.

A Member suggested that colour coding of objectives would be helpful to ascertain how vital the objective was and the impact if it was not met. The Corporate Director Resources and Commercial assured Members that the objectives were reviewed during the year with oversight by himself and the Head of Internal Audit and Corporate Anti-Fraud and if anything serious was not on track it would be dealt with.

RESOLVED: That the report be noted.

210. Exclusion of the Press and Public

RESOLVED: That in accordance with Part I of Schedule 12A to the Local Government Act 1972, the press and public be excluded from the meeting for the following item for the reasons set out below:

Item	Title	Reason
15	Information Report – Corporate Risk Register	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information).

211. INFORMATION REPORT - Corporate Risk Register

The Committee received a confidential report on the Council's 2017/18 Quarter 2 Corporate Risk Register as part of its role in monitoring progress on risk management.

The attention of the Committee was drawn to the risks as recorded on the front sheet of the risk register, particularly those risks rated red as these were seen as the most significant group of corporate risks currently facing the Council.

The Head of Internal Audit and Corporate Anti-Fraud reported that all risks had been reviewed and updated. The new and emerging risks in Quarter 2 were outlined.

In response to a question regarding the emerging risk of the effectiveness of the Council's health and safety arrangement, it was noted that strategies were under discussion and the Committee would be updated.

The Committee discussed the impact of homelessness on the budget. A Member stated that it would be useful to see the report from the peer review in order to do an analysis. The Corporate Director Resources and Commercial undertook to ascertain whether there was a written outcome of the peer review.

In response to a question, it was noted that the risk register was updated by managers and then 'moderated' by the Corporate Strategy Board before it was finalised each quarter..

The Director of Finance reported that £3m had been put into homelessness and undertook to confirm the current budget.

RESOLVED: That the report be noted.

(Note: The meeting, having commenced at 7.30 pm, closed at 8.35 pm).

(Signed) COUNCILLOR ANTONIO WEISS
Chair

REPORT FOR:	**GOVERNANCE, AUDIT, RISK MANAGEMENT AND STANDARDS COMMITTEE**
Date of Meeting:	30 January 2018
Subject:	**INFORMATION REPORT** - External Audit Plan 2017/18
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	External Audit Plan 2017/18

Section 1 – Summary and Recommendations

This report provides the Committee with an opportunity to consider the External Audit Plan 2017/18 from the Council's external auditors

Recommendation

The Committee is asked to note the External Audit Plan

Reason

To keep the Committee informed of the planned external audit work

Section 2 – Report

Background

External Audit Plan for 2017/18

1. The External Audit Plan provides the Council with clarity about how the external audit of the Council's accounts and Pension Fund accounts for 2017/18 will be conducted. The audit plan sets out the following :-
   a. Estimated overall materiality – this has been set at £8m for the General Fund and £10m for the Pension Fund;
   b. Impact on the Council's Statement of Accounts resulting from the developments and changes from the 2017/18 Code of Practice on Local Authority Accounting of which there are no significant changes;
   c. Scope of audit work and approach;
   d. Significant and other audit risks as summarised below:-
      i. Management override of controls – which would include testing of journals, significant accounting estimates and any unusual transactions;
      ii. Potential for fraudulent revenue recognition - this is not considered a high risk as there are limited incentives and opportunities to manipulate the way income is reported. Standard fraud procedures will be undertaken.
      iii. Valuation of land and buildings;
      iv. Pension Fund liabilities (from the Authority's view);
      v. For the Pension Fund, valuation of hard to price investments;
      vi. Faster closure and production of accounts by 31st May (previously 30th June) and external audit certification by 31st July (previously 30th September)
      vii. Regeneration Programme – part of Harrow's "Building a better Harrow" regeneration strategy;
      viii. Grant income recognition; and
      iv. Calculation of benefits – Pension Fund
   e. Value for Money conclusion - this will be reviewed in conjunction with the delivery of the Medium Term Financial Strategy;
   f. Auditors' responsibilities; and
   g. Audit fees and Timetable.

2. The Committee is asked to consider the plan.

Financial Implications

There are no direct financial implications arising from this report.

Risk Management Implications

The receipt of the audit plan is included within the closure of accounts timetable for officers to ensure the plan has been received.

Equalities implications

There are no equalities implications.

Council Priorities

The Statement of Accounts provides assurance that the Council has managed its finances and delivered value for money in accordance with Council's corporate vision and priorities.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert	x	Chief Financial Officer
Date: 18th January 2018		

Ward Councillors notified:	**n/a**

Section 4 - Contact Details and Background Papers

Contact: Paul Gower (Interim Technical Accounting Manager) Tel: 020-8424-1335 / Email: paul.gower@harrow.gov.uk

Background Papers:
None

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KPMG

External Audit Plan 2017/18

London Borough of Harrow

January 2018

Headlines

16

Financial Statement Audit

There are no significant changes to the Code of Practice on Local Authority Accounting ("the Code") in 2017/18, which provides stability. Deadlines for producing and signing the accounts have advanced. This is a significant change and needs careful management to ensure the new deadlines are met. The Authority advanced its accounts production last year and recognises the need for further advances in 2017/18 to meet the new deadlines. As such we do not feel that this represents a significant risk, although it is still critically important. To meet the revised deadlines it is essential that the draft financial statements and all 'prepared by client' documentation is available in line with agreed timetables. Where this is not achieved there is a significant likelihood that the audit report will not be issued by 31 July 2018.

Authority significant risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

– **Valuation of land and buildings:** Whilst the Authority operates a cyclical revaluation approach, the Code requires that all land and buildings be held at fair value. We will consider the way in which the Authority ensures that assets not subject to in-year revaluation are not materially misstated; and

– **Pension liabilities:** The valuation of the Authority's pension liability, as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We will review the processes to ensure accuracy of data provided to the Actuary and consider the assumptions used in determining the valuation.

Pension fund significant risks

– **Valuation of hard to price investments:** The pension fund invests in a range of assets and funds, some of which are inherently harder to value due to there being no publicly available quoted prices. We will verify a selection of investments to third party information and confirmations.

Value for Money Audit

Our risk assessment regarding your arrangements to secure value for money has identified the following VFM significant risk to date:

– **Delivery of Medium Term Financial Strategy:** As a result of reductions in central government funding, and other pressures, the Authority is having to make significant savings in addition to those delivered in prior years and there are future budget gaps that need to addressed in 2019/20 and 2020/21. We will consider how the Authority identifies, approves, and monitors savings plans and how budgets are monitored throughout the year.

Other information

Logistics and team

Our team is led by Andrew Sayers – Partner and Antony Smith – Manager.

Our work will be completed in four phases from December to July and our key deliverables are this Audit Plan and a Report to Those Charged With Governance.

Fees

Our fee for the 2017/18 audit is £150,724 (£150,724 2016/2017). Our fee for the 2017/18 Pension Fund audit is £21,000 (£21,000 2016/2017). These are both in line with the scale fees published by PSAA. All changes in fees are subject to approval by PSAA.

Acknowledgement

We thank officers and Members for their continuing help and cooperation throughout our audit.

Content

The contacts at KPMG in connection with this report are:

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Manager

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This report is addressed to the London Borough of Harrow (the Authority) and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. PSAA issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on PSAA's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, you should contact Andrew Sayers, the engagement lead to the Authority and the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, who will try to resolve your complaint. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

1. Introduction

Background and statutory responsibilities

This plan supplements our 2017/18 audit fee letter 2017/18 issued in April 2017, which set out details of our appointment by PSAA.

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014, the NAO's Code of Audit Practice and the PSAA Statement of Responsibilities.

Our audit has two key objectives, requiring us to audit / review and report on your:

— **Authority and Pension Fund Financial statements:** Providing an opinion on your accounts. We also review the Annual Governance Statement and Narrative Report and report by exception on these; and

— **Use of resources:** Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary. Any change to our identified risks will be reporting to the Governance, Audit, Risk Management and Standards Committee (GARMS Committee).

Financial statements audit

Our financial statements audit follows a four stage process:

— Financial statements audit planning

— Control evaluation

— Substantive procedures

— Completion

Appendix 1 provides more detail on these stages. This plan concentrates on the Financial Statements Audit Planning stage.

Value for Money

Our Value for Money (VFM) arrangements work follows a five stage process:

— Risk assessment

— Links with other audit work

— Identification of significant VFM risks

— Review work (by ourselves and other bodies)

— Conclude

— Report

Pages 11 and 12 provide more detail on these stages. This plan concentrates on explaining the VFM approach for 2017/18 and the findings of our VFM risk assessment.

2. Financial statements audit planning

Financial statements audit planning

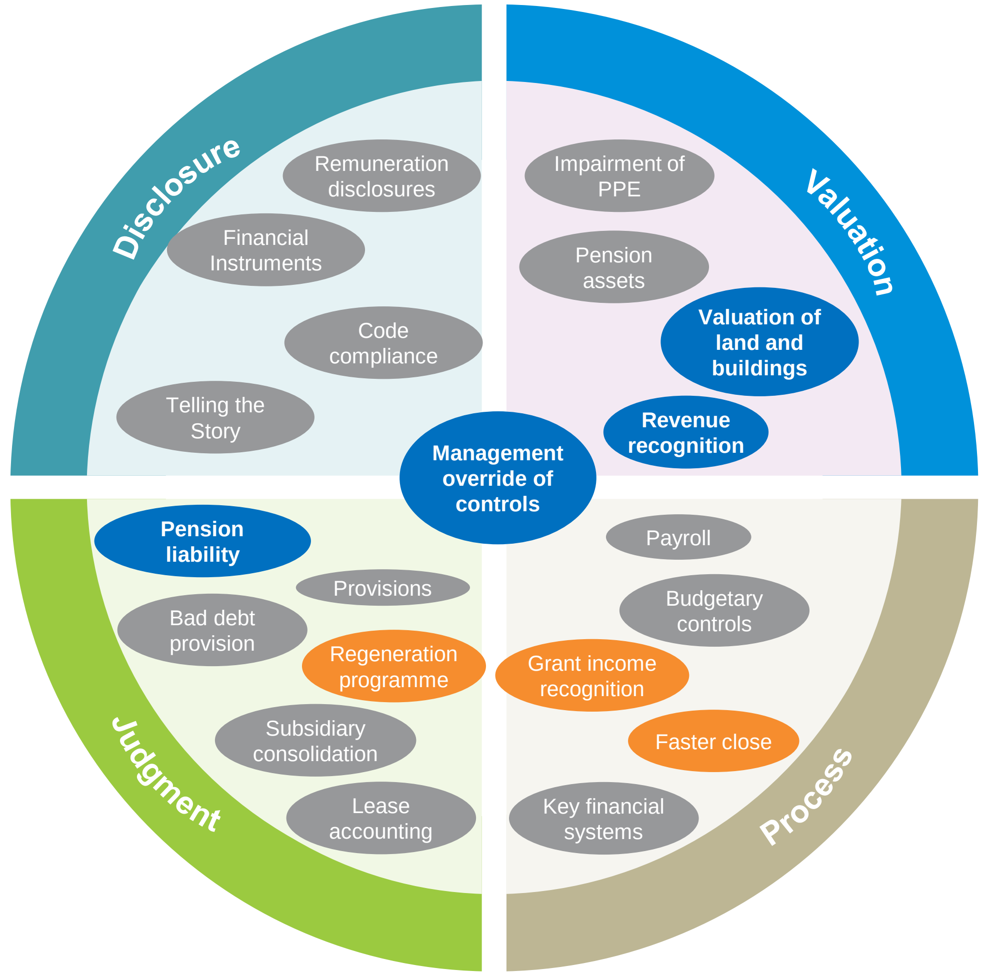
Our planning work takes place December 2017 to January 2018 and involves: determining materiality; risk assessment; identification of significant risks; consideration of potential fraud risks; identification of key account balances and related assertions, estimates and disclosures; consideration of Management's use or experts; and issuing this plan to communicate our audit strategy.

Authority risk assessment

Professional standards require us to consider two standard risks. We are not elaborating on these standard risks in this plan but consider them as a matter of course and will include any findings arising from our work in our ISA 260 Report.

— **Management override of controls:** Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit incorporates the risk of Management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

— **Fraudulent revenue recognition:** We do not consider this generally to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures, except for conditional grant income (capital grants received in 2016/17 were £32 million; and as at 31 March 2017 the Authority held a Community Infrastructure Levy (CIL) reserve of £6.1 million; and a capital grants unapplied reserve of £19.6 million. We will therefore combine this work with the other area of focus for grant income recognition.



Key: ● Significant risk ● Other area of audit focus ● Other areas considered

2. Financial statements audit planning

Authority significant audit risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

Valuation of land and buildings

Risk: The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees land and buildings revalued over a five year cycle. As a result individual assets may not be revalued for four years. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. In addition, as the valuation is undertaken as at 1 April, there is a risk that the fair value is different at year end.

Approach: We will review the approach that the Authority has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. We will assess the risk of the valuation changing materially in year. We will consider movement in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values have moved materially over that time.

In relation to those assets which have been revalued during the year we will assess the valuer's qualifications, objectivity and independence to carry out such valuations and review the methodology used (including testing the underlying data and assumptions).

Pension liabilities

Risk: The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of the London Borough of Harrow Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018. Valuation of the Local Government Pension Scheme relies on assumptions, most notably actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation.

There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. Assumptions should reflect the profile of the Authority's employees and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.

Approach: We will review controls that the Authority has in place over the information sent directly to the Scheme Actuary. We will liaise with the auditors of the Pension Fund to gain an understanding of the effectiveness of controls operated by the Pension Fund. This will include consideration of the process and controls with respect to the assumptions used in the valuation. We will evaluate the competency, objectivity and independence of Hymans Robertson.

We will review the appropriateness of key assumptions in the valuation, compare them to expected ranges, and consider the need to make use of a KPMG actuary. We will review the methodology applied in the valuation by Hymans Robertson. In addition, we will review the overall Actuarial valuation and consider the disclosure implications in the financial statements.

2. Financial statements audit planning

Authority other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Faster close

Risk: In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.

During 2016/17, the Authority started to prepare for these revised deadlines and advanced its accounts production timetable so that draft accounts were ready by 16 June 2017 (accounts were signed on 29 September 2017). Whilst this was an advancement on the timetable applied in preceding years, further work is still required in order to ensure that the statutory deadlines for 2017/18 are met.

To meet the revised deadlines, the Authority may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. There are logistical challenges that will need to be managed including:

- Ensuring that any third parties involved in the production of the accounts (including valuers, actuaries) are aware of the revised deadlines and have made arrangements to provide the output of their work accordingly;
- Revising the closedown and accounts production timetable to ensure that all working papers and supporting documentation are available at the start of the audit;
- Ensuring that the GARMS Committee meeting schedules have been updated to permit signing in July; and
- Applying a shorter paper deadline to the July meeting of the GARMS Committee meeting in order to accommodate the production of the final version of the accounts and our ISA 260 report.

In the event that the above areas are not effectively managed there is a significant risk that the audit will not be completed by the 31 July deadline. There is an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) may be issued separately at a later date if work is still ongoing in relation to the Authority's Whole of Government Accounts return. This is not seen as a breach of deadlines.

Approach: We will continue to liaise with officers in preparation for our audit to understand the steps the Authority is taking to meets the revised deadlines. We will look to advance audit work into the interim visit to streamline the year end audit work. Where there is greater reliance upon accounting estimates we will consider the assumptions used and challenge the robustness of those estimates.

2. Financial statements audit planning

Authority other areas of audit focus (continued)

Regeneration programme
Risk: The regeneration programme is part of the Authority's 'Building a better Harrow' regeneration strategy, which lays out plans for £1.75 billion investment in the Borough in the period 2014-26. Work has begun with some phases/elements completed and others in various design phases and therefore capital costs are continuing to be incurred in relation to the regeneration programme. The Authority will continue to exercise judgement in determining the fair value of assets under construction and the methods used to ensure that the carrying values recorded each year reflect those fair values. **Approach:** We will undertake detailed testing of assets under construction and any movements within this category, as part of our final accounts audit.

Grant income recognition
Risk: In 2016/17 the Authority received total capital grants of £32 million. Also as at 31 March 2017 the Authority had three relevant balances to this area: a CIL reserve (£6.1 million); capital grants received in advance (£3.5 million) and capital grants and contributions unapplied (£19.6 million). Accounting for capital grant income and ensuring balances remain appropriate is complex as the basis for recognition in the financial statements will vary depending on the individual conditions associated with each grant. In addition Management must apply judgement to determine if such conditions are attached to a grant and if they have been met. **Approach:** We will perform substantive testing over a sample of capital grants received during the year and balances held at the 31 March 2018. We will review grant correspondence and assess if the Authority has recognised the income in accordance with the CIPFA Code and grant agreement.

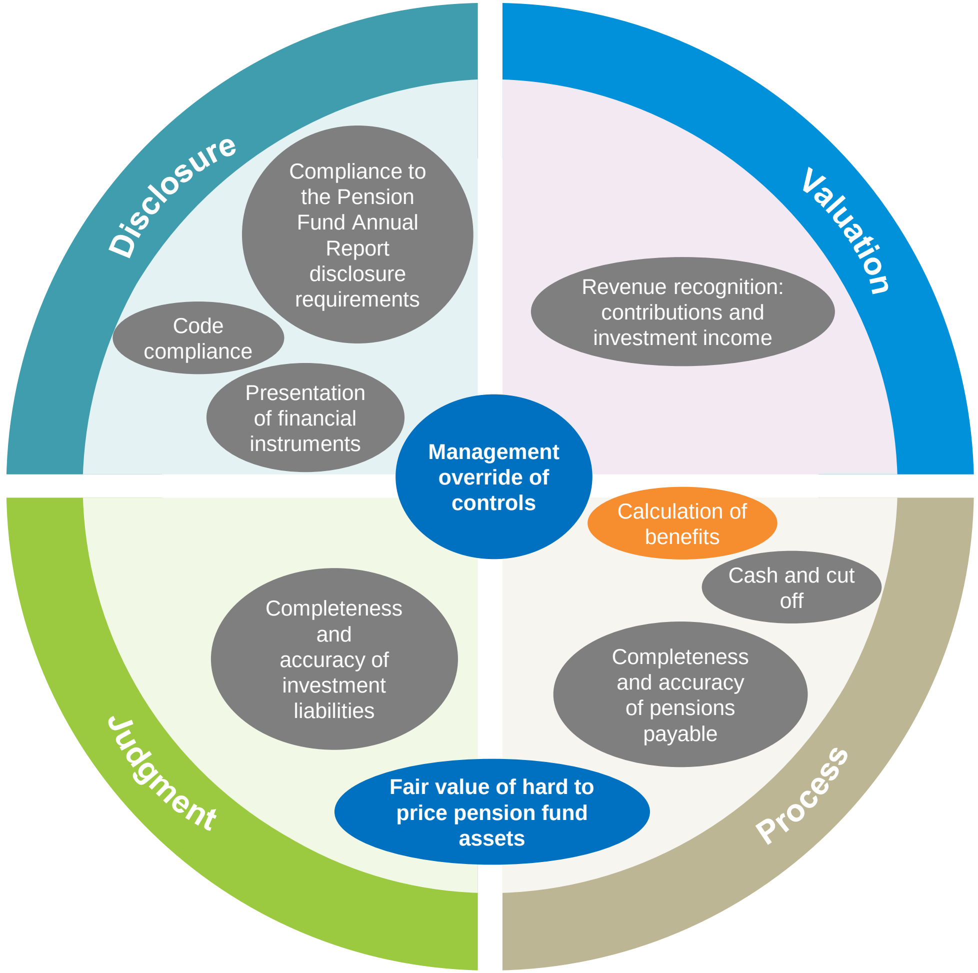
2. Financial statements audit planning

Pension Fund risk assessment

Professional standards require us to consider two standard risks. We are not elaborating on these standard risks in this plan but consider them as a matter of course and will include any findings arising from our work in our ISA 260 Report.

— **Management override of controls:** Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit incorporates the risk of Management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

— **Fraudulent revenue recognition:** We do not consider this to be a significant risk for local authority Pension Funds as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.



Key: Significant risk Other area of audit focus Other areas considered

2. Financial statements audit planning

Pension Fund significant audit risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Pension Fund.

Valuation of hard to price investments
Risk: The Pension Fund invests in a wide range of assets and investment funds, some of which are inherently harder to value or do not have publicly available quoted prices, requiring professional judgement or assumptions to be made at year end. The pricing of complex investment assets may be susceptible to pricing variances given the assumptions underlying the valuation. In the prior year financial statements £21 million out of a total of £777 million investments, or 2.7%, were in this harder to price category.
Approach: We will independently verify a selection of investment asset prices to third party information and obtain independent confirmation on asset existence. We will test to what extent the Pension Fund has challenged the valuations reported by investment managers for harder to price investments and obtained independent assessment of those figures.

Pension Fund other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Calculation of benefits
Risk: The calculation of benefits can be complex. In 2016/17 a total of £32 million was paid out by the Pension Fund (pensions and lump sums). Given the quantity and complexity of these calculations there is a risk of misstatement.
Approach: We will complete detailed sample testing over benefits paid and complete a substantive analytical review over the total benefits paid in year.

2. Financial statements audit planning

Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements. Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

For the Authority materiality for planning purposes has been set at £8 million which equates to 1.3% of 2016/17 Authority expenditure. The threshold above which individual errors are reported to the GARMS Committee is £400,000.

For the Pension Fund materiality for planning purposes has been set at £10 million which equates to 1.2% of 2016/17 net assets. The threshold above which individual errors are reported to the GARMS Committee is £500,000.

Reporting to the GARMS Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the GARMS Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260(UK&I) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance.

ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Authority we propose that an individual difference could normally be considered to be clearly trivial if it is less than £400,000.

In the context of the Pension Fund we propose that an individual difference could normally be considered to be clearly trivial if it is less than £500,000.

If Management has corrected material misstatements identified during the audit, we will consider whether those corrections should be communicated to the GARMS Committee to assist it in fulfilling its governance responsibilities.

Group audit

As part of its commercialisation projects the Authority has set up a trading company, under the 'Concilium' Group structure (both were incorporated in November 2015). Also in 2017/18 the Council has a new subsidiary (the former PFI Sandcroft care home). Whilst we do not expect the scale of operations to be material in 2017/18, we need to continue to revisit this consideration as the scale of operation increases.

Should the Concilium Group reach a scale where group accounts are considered to apply we will need to review the impact on our audit and the additional work that would be needed to be able to give an audit opinion on the group accounts.

3. Value for money arrangements work

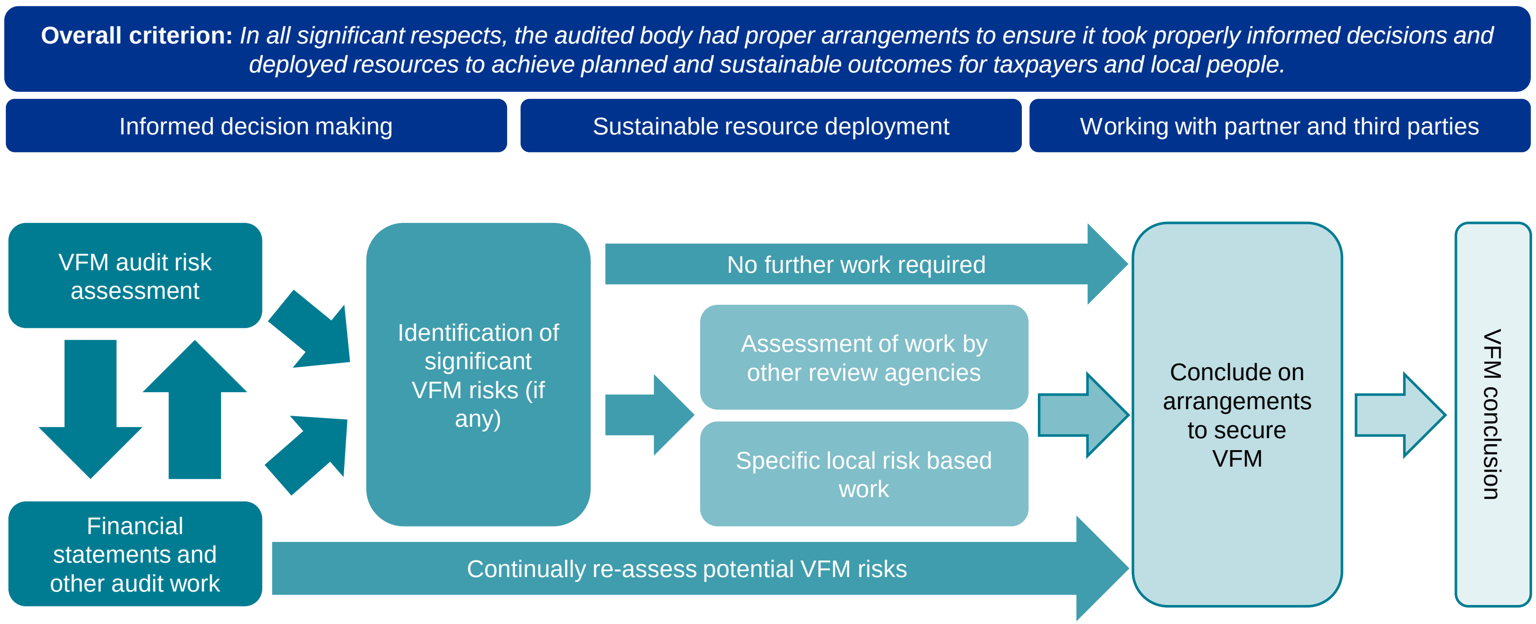
For our value for money conclusion we are required to work to the NAO Code of Audit Practice (issued in 2015 after the enactment of the Local Audit and Accountability Act 2014).

Our approach to VFM work follows the NAO's new guidance that was first introduced in 2015-16, is risk based and targets audit effort on the areas of greatest audit risk.

We have planned our audit to draw on our past experience of delivering this conclusion and have updated our approach as necessary. We will also consider reports from your regulators and review agencies.

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the organisation "has made proper arrangements for securing economy, efficiency and effectiveness in its Value for Money". This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to "take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements."

The VFM process is shown in the diagram below:



We have completed our initial VfM risk assessment and have identified one significant risk for the VfM conclusion (see overleaf for details). We will keep this under review during our audit and notify the GARMS Committee of any change.

3. Value for money arrangements work

Significant VFM Risks

Those risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

Delivery of Medium Term Financial Strategy

Risk: Local Authorities continue to be subject to a challenging financial regime with reduced funding from Central Government whilst having to maintain a statutory and quality level of services to local residents. In December 2017, the Authority reported an overspend of £6.4 million (after the planned use of £3 million available from capital receipts under the Government's capital flexibilities scheme) at the end of Quarter 2 (ie 30 September 2017). This was reduced to £3.9 million after the draw down from earmarked reserves of £2.5 million. The quarter 2 report noted that this over spend was mitigated in full from additional income allocated to the Council after the budget had been set; corporate items (unused contingencies etc); and the spending controls freeze. The most significant pressures reported related to Children's services (£3 million), although the report notes that management actions have improved the position and reduced the over spend by £0.5 million compared with Quarter 1.

The Authority's balanced budget for 2017/18, includes the delivery of £10 million of approved savings plans. The Quarter 2 report shows that 63% of the schemes (by value) have been achieved or are on track; 21% will be partially delivered and 16% are not achievable. Any shortfall or delay in delivery of savings (£1.6 million rated as not achievable and £2.1 million at risk) will increase the already challenging financial pressures on the Authority even further and may mean reducing the already low (comparatively) level of general reserves and will increase the level of savings needed in future years.

The Authority's latest MTFS (December 2017) includes a balanced draft budget for 2018/19 with a further £11 million of savings plans included. The MTFS identifies further planned savings totalling £3.5 million across 2019/20 and 2020/21, leaving a budget gap of £28 million to be addressed. The significant size of the future budget gap reflects the continuing constraints on resources; service cost and demand pressures; and the one-off nature of some elements used by the Authority to get to a balanced budget for 2018/19.

The delivery of the planned savings (and identification of further additional savings) is critical to ensure the Authority's financial resilience is maintained. Consequently, the Authority will need to continue to manage its savings plans to secure longer term financial and operational sustainability..

Approach: We will review overall management arrangements that the Authority has for managing its financial position. This will include the processes to develop a robust Medium Term Financial Strategy, ongoing monitoring of the annual budget, review of how savings plans have been developed and how their delivery is monitored, responsiveness to increasing costs of demand led services and changes in funding allocations.

VFM sub-criterion: This risk is related to the following Value For Money sub-criterion:

— Informed decision making;

— Sustainable resource deployment; and

— Working with partners and third parties.

4. Other matters

Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2017/18 have not yet been confirmed

Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are: the right to inspect the accounts; the right to ask the auditor questions about the accounts; and the right to object to the accounts. As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece where we interview an officer and review evidence to form our decision to a more detailed piece where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised. Costs incurred responding to questions or objections raised by electors is not part of the fee. This work will be charged in accordance with PSAA's fee scales.

Our audit team

Your audit team has been drawn from our specialist public sector assurance department and is led by two key members of staff:

- **Andrew Sayers:** your Partner has overall responsibility for the quality of the KPMG audit work and is the contact point within KPMG for the GARMS Committee, the Chief Executive and Finance Director.
- **Antony Smith:** your Manager is responsible for delivery of all our audit work. He will manage the completion of the different elements of our work, ensuring that they are coordinated and delivered in an effective manner.

The core audit team will be assisted by other KPMG staff, such as risk, tax, clinical or information specialists as necessary to deliver the plan.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but in ensuring that the audit team is accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the GARMS Committee. Our communication outputs are included in Appendix 1.

Independence and Objectivity

Auditors are required to be independent and objective. Appendix 2 provides more details of our confirmation of independence and objectivity.

4. Other matters

Audit fee

Our Audit Fee Letter 2017/2018 presented to you in April 2017 first set out our fees for the 2017/2018 audit. This letter also included our assumptions. We have not considered it necessary to seek approval for any changes to the agreed fees at this stage.

Should there be a need to charge additional audit fees then this will be agreed with the S151 Officer and PSAA. If such a variation is agreed, we will report that to you in due course.

The planned audit fee for 2017/18 is £150,724 for the Authority (2016/17: £150,724). The planned audit fee for 2017/18 is £21,000 for the Pension Fund (2016/17: £21,000).

Grants and claims work

We undertake other grants and claims work for the Authority that does not fall under the PSAA arrangements:

- Housing benefits grant claim: This audit is planned for September. Our fee for this work is £27,735; and
- Pooled housing capital receipts: This audit is planned for October. Our fee for this work is £3,500; and
- Teachers pension contribution return: This audit is planned for October. Our fee for this work is £3.500.

Public interest reporting

In auditing the accounts as your auditor we must consider whether, in the public interest, we should make a report on any matters coming to our notice in the course of our audit, in order for it to be considered by Members or bought to the attention of the public; and whether the public interest requires any such matter to be made the subject of an immediate report rather than at completion of the audit.

At this stage there are no matters that we wish to report.

Appendix 1: Key elements of our financial statements audit approach

Communication

Continuous communication between you and us

- Audit strategy and plan
- ISA 260 (UK&I) Report
- Annual Audit Letter

Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep

Audit workflow

- Initial planning meetings and risk assessment
- Interim audit
- Year end audit of financial statements and annual report
- Sign audit opinion

Planning

- Perform risk assessment procedures and identify risks
- Determine audit strategy
- Determine planned audit approach

Control evaluation

- Understand accounting and reporting activities
- Evaluate design and implementation of selected controls
- Test operating effectiveness of selected controls
- Assess control risk and risk of the account being misstated

Substantive testing

- Plan substantive procedures
- Perform substantive procedures
- Consider if audit evidence is sufficient and appropriate

Completion

- Perform completion procedures
- Perform overall evaluation
- Form an audit opinion
- GARMS Committee reporting

Appendix 2: Independence and objectivity requirements

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF THE LONDON BOROUGH OF HARROW

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Ltd's ('PSAA's') Terms of Appointment relating to independence and the requirements of the FRC Ethical Standard and General Guidance Supporting Local Audit (Auditor General Guidance 1 – AGN01) issued by the National Audit Office ('NAO').

This Appendix is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses: General procedures to safeguard independence and objectivity; Breaches of applicable ethical standards; Independence and objectivity considerations relating to the provision of non-audit services; and Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values; Communications; Internal accountability; Risk management; and Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Independence and objectivity considerations relating to the provision of non-audit services

We confirm that we have not undertaken any non-audit services during 2017/18.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the GARMS Committee.

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Partner and audit staff is not impaired.

This report is intended solely for the information of the GARMS Committee of the authority and should not be used for any other purposes.

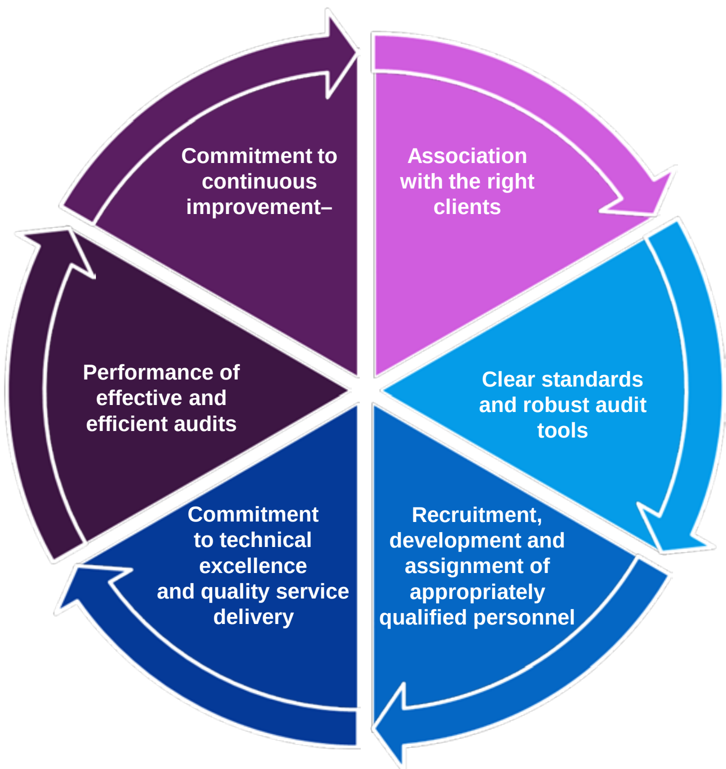
We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Appendix 3: Quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework

- Comprehensive effective monitoring processes
- Proactive identification of emerging risks and opportunities to improve quality and provide insights
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management



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- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Relationships built on mutual respect
- Insightful, open and honest two way communications

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- Independence policies

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members and specialists

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, you should contact Andrew Sayers, the engagement lead to the Authority and the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, who will try to resolve your complaint. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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REPORT FOR:	**GOVERNANCE, AUDIT, RISK MANAGEMENT AND STANDARDS COMMITTEE**
Date of Meeting:	30 January 2018
Subject:	**INFORMATION REPORT** - Audit Report on Grant and Returns Certifications 2016/17
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	Appendix - Audit Report on Grants and Returns 2016/17

Section 1 – Summary and Recommendations

This report provides the Committee with the opportunity to note the External Auditor's report on the grant and returns certifications of 2016/17.

Recommendation

The Committee is asked to note the Audit Report on Grant and Returns Certifications 2016/17.

Reason

To keep the Committee informed of the External Auditor's work on grant and returns certifications.

Harrow COUNCIL LONDON

Section 2 – Report

Background

Audit Report on Grant and Returns Certifications 2016/17

1. Under the Public Sector Audit Appointments (PSAA) (formerly the Audit Commission), the Authority's external auditors had just one grant claim to audit. This was the Housing Benefits subsidy claim (value £150m).
2. In addition, the external auditors were required to certify two non-PSAA returns, being the Teachers' Pension Contributions (value £11m) and the Pooling of Capital Receipts (value £5.9m).
3. A qualification letter was issued in respect of the Housing Benefit subsidy grant claim. This highlighted to both the Authority and the Government department that audit testing of the claim identified some errors of which there is not expected to be any effect on the subsidy granted.
4. The audit of the Teachers' Pension return was certified (in accordance with certification instructions) with two minor issues observed, but not requiring amendment and no qualification, while the Pooling of Capital Receipts return (in accordance with certification instructions) was certified without amendment or qualification.

The Committee is asked to note the report from KPMG on the certification of the 2016/17 grant claim and returns.

Financial Implications

There are no direct financial implications arising from this report.

Risk Management Implications

The completion of the grant claim and returns are included within the closure of accounts timetable to ensure that they are submitted and audited in accordance within the approved deadlines.

Equalities implications

There are no equalities implications.

Council Priorities

The certification of the subsidy claim and the two returns provides assurance that the Council has managed its finances and delivered value for money in accordance with the Council's corporate vision and priorities.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert	x	Chief Financial Officer
Date: 18th January 2018		

Ward Councillors notified:	**n/a**

Section 4 - Contact Details and Background Papers

Contact: **Paul Gower** (Interim Technical Accounting Manager) Tel: 020-8424-1335
Email: paul.gower@harrow.gov.uk

Background Papers:
None

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KPMG

Annual Report on grants and returns 2016/17

London Borough of Harrow

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January 2018

Contents

The contacts at KPMG in connection with this report are:

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

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Headlines

Introduction and background

This report summarises the results of work we have carried out on the Council's 2016/17 grant claims and returns.

This includes the work we have completed under the Public Sector Audit Appointment certification arrangements, as well as the work we have completed on other grants/returns under separate engagement terms. The work completed in 2016/17 was:

- Under the Public Sector Audit Appointments arrangements we certified one claim – the Council's 2016/17 Housing Benefit Subsidy claim. This had a value of £150 million.
- Under separate engagements we issued reports on two claims/returns as listed below.
  - Teachers' Pensions Return (total contributions paid were £11.0 million); and
  - Pooling of Housing Capital Receipts return (total housing receipts subject to pooling were £5.9 million).

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Certification and assurance results (Pages 3-4)

Our certification work on Housing Subsidy Benefit claim included:

- agreeing standard rates, such as for allowances and benefit incomes, to the DWP Circular communicating the value of each rate for the year;
- sample testing of benefit claims to confirm that the entitlement had been correctly calculated and was supported by appropriate evidence;
- undertaking an analytical review of the claim form considering year-on-year variances and key ratios;
- confirming that the subsidy claim had been prepared using the correct benefits system version; and
- completing testing in relation to modified schemes payments, uncashed cheques and verifying the accurate completion of the claim form.

Following the completion of our work, the claim was subject to a qualification letter.

- Our testing of 100 cases (60 initial cases and 40 additional cases) identified four HRA rent rebates cases with errors. Three of the errors resulted in an underpayment of subsidy and one in an over payment of £1,461.98.
- The DWP requires auditors to extrapolate any over payment errors. This calculation identified that the extrapolated impact of the error was £73,908. Whilst a final determination is awaited from the DWP, the nature of the error means that it is not expected that the extrapolated error will affect the amount of subsidy payable to the Council.
- In the previous year we tested 100 cases (60 initial cases and 40 additional cases) and identified three cases with errors. The extrapolated error value was £12,903. There was also a £241 amendment due to an error with uncashed cheques.

Our work to complete 'Agreed Upon Procedures' (AUP) on the *Pooling of Housing Capital Receipts* return included testing of entries specified by the Department for Communities and Local Government (DCLG) as follows:

- total expenditure incurred by the Council in buying a relevant interest in the relevant quarter;
- total receipts received by the Council in the relevant quarter arising from disposal of dwellings under Right to Buy (RTB) or any other disposal to which the Schedule to Regulations applies);
- total receipts received by the Council in the relevant quarter arising from disposals of dwellings made before 01 April 2012 under RTB or equivalent provision;
- number of sales made by the Council in the relevant quarter to which the Schedule applies;
- quarterly attributable debt for the relevant quarter; and
- actual amount of new-build expenditure between 01 April 2016 and 31 March 2017.

Headlines

Our completion of the AUPs work on the Pooling of Housing Capital Receipts return assurance engagement resulted in an unqualified conclusion such that, based upon the work performed, in our opinion, the entries in the return specified by the DCLG had been prepared, in all material respects, in accordance with the regulations underpinning the Pooling of Housing Capital Receipts scheme.

Our work to complete AUPs on the *Teachers' Pensions* return followed the instructions issued by the Teachers' Pensions agency (TP) and included:

- completing a comparison of the actual employee's and employer's contributions included in the return with the expected value using the contributory salary reported in the return for each tier (ie the teachers' pensions scheme has six tiers related to salary with different contribution rates for each);
- sample testing confirming that contributory salaries have been extracted correctly from payroll records, teachers' contributions have been deducted at the appropriate rate, employer's contributions have been calculated correctly and where relevant that 'other' contributions had been dealt with correctly; and
- completing testing in relation to any refunds of contributions made to teachers.

For the sample testing of 25 teachers, we identified two issues affecting four teachers:

- One teacher who left, did not have pension deductions made for their last day of employment (employee deductions £21.03 and employer contributions £30.67). The Council has reminded staff to follow the system workflow requirements and the Council has made a payment to amend the error; and
- For three teachers included in the return, with 'irregular' hours (eg supply teachers), we noted that they were not included as 'active' on the TP Portal. The Council is looking in more detail at consistency of its teacher's pensions records and the TP Portal information.

We did not report any other matters to the TP as a result of completing the specified AUPs.

No adjustments were necessary to the Council's grants and returns as a result of our certification work this year.

There were minor adjustments to the Housing Subsidy Benefit claim and Teachers' Pensions return in 2015/16.

Recommendations

We have not made any recommendations to the Council from our work this year or last year.

Fees (Page 7)

Our fee for certifying the Council's 2016/17 Housing Benefit Subsidy grant was £20,423, which is in line with the indicative fee set by PSAA.

Our fee for the Teachers' Pensions Return was subject to agreement directly with the Council and was £3,500.

Our fee for the Pooling of Housing Capital Receipts Return was subject to agreement directly with the Council and was £3,500.

Summary of reporting outcomes

Overall, we carried out work on three grants and returns:

- **One was unqualified with no amendment;**
- **One required a report to be sent to the grant paying body; and**
- **One required a qualification to our audit certificate.**

Detailed comments are provided overleaf.

Detailed below is a summary of the reporting outcomes from our work on the Council's 2016/17 grants and returns, showing where either audit amendments were made as a result of our work or where we had to qualify our audit certificate or assurance report.

A qualification means that issues were identified concerning the Council's compliance with a scheme's requirements that could not be resolved through adjustment. In these circumstances, it is likely that the relevant grant paying body will require further information from the Council to satisfy itself that the full amounts of grant claimed are appropriate.

	Comments overleaf	Qualified	Issue reported	Minor adjustment	Unqualified/no issues reported
Public Sector Audit Appointments regime					
— Housing Benefit Subsidy	1	●			
Other grant/return engagements					
— Teachers' Pensions Return	2		●		
— Pooling of Housing Capital Receipts Return	3				●
		1	**1**	**0**	**1**

Summary of certification work outcomes

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This table summarises the key issues behind each of the adjustments or qualifications that were identified on the previous page.

Ref	Summary observations	Amendment
1	**Housing Benefit Subsidy** — The Council's 2016/17 Housing Benefit Subsidy claim has a value of £150 million. — Our initial testing of 60 cases (20 each from Non-HRA; HRA; and Rent Allowances) did not identify any errors. — As a consequence of the errors in 2015/16, the DWP requires the auditor to undertake additional testing. Our additional testing of 40 HRA cases identified four cases with errors. Three of the errors resulted in an underpayment of subsidy; but one of the errors identified an overpayment of subsidy (value £1,461.98). — The DWP requires auditors to extrapolate any over payment errors. This calculation identified that the extrapolated impact of the error was £73,908. We reported the position to the DWP in the form of a qualification to the claim. No amendment was made to the claim for the error identified or the extrapolation. Whilst a final determination is awaited from the DWP, the nature of the error means that it is not expected that the extrapolated error will affect the amount of subsidy payable to the Council.	**NIL**
2	**Teachers' Pensions Return** — For the sample testing of 25 teachers, we identified two issues affecting four teachers: • One teacher who left, did not have pension deductions made for their last day of employment (employee deductions £21.03 and employer contributions £30.67). The Council has reminded staff to follow the system workflow requirements and the Council has made a payment to amend the error; and • For three teachers included in the return, with 'irregular' hours (eg supply teachers), we noted that they were not included as 'active' on the TP Portal. The Council is looking in more detail at consistency of its teacher's pensions records and the TP Portal information. Also for the future the Council is revising its processes by completing monthly returns in the future, rather than relying on the annual return. — We did not report any other matters to the TP as a result of completing the specified AUPs.	**NIL**
3	**Pooling of Housing Capital Receipts Return** — The Return was certified with an unqualified reporting accountants' report.	**NIL**

Fees

45

Our fees for the Housing Benefit Subsidy claim are set by Public Sector Audit Appointments.

Our fees for other assurance engagements on grants/returns are agreed directly with the Council.

The overall fees we charged for carrying out all our work on grants/returns in 2016/17 was £27,423.

Public Sector Audit Appointments certification arrangements

Public Sector Audit Appointments set an indicative fee for our work on the Council's Housing Benefit Subsidy claim in 2016/17 of £20,423. Our actual fee was the same as the indicative fee, and this compares to the 2015/16 fee for this claim of £27,735.

The reason the fee has changed is caused by the methodology used by Public Sector Audit Appointments to set the scale fee, as it uses the fee from 2014/15 as the base. Thus the scale fee for 2014/15 and 2016/17 is £20,423, whereas the scale fee for 2015/16 and 2017/18 is £27,735.

Grants subject to other engagements

The fees for our work on other grants/returns are agreed directly with the Council. Our fees for 2016/17 were in line with those in 2015/16. The reason for the increase for the Teachers' Pensions Return was due to additional testing needed to meet the TPs AUP requirements.

Breakdown of fees for grants and returns work

Breakdown of fee by grant/return		
	2016/17 (£)	**2015/16 (£)**
Housing Benefit Subsidy claim	20,423	27,735
Teachers' Pensions return	3,500	3,000
Pooling of Housing Capital Receipts return	3,500	3,500
Total fee	**27,423**	**34.235**

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REPORT FOR:	**GOVERNANCE, AUDIT, RISK MANAGEMENT AND STANDARDS COMMITTEE**
Date of Meeting:	30 January 2018
Subject:	**INFORMATION REPORT – Revised Internal Audit Plan 2017/18**
Responsible Officer:	Tom Whiting – Corporate Director Resources and Commercial
Exempt:	No
Enclosures:	Appendix 1 – Revised Internal audit Plan 2017/18

Section 1 – Summary

This report sets out the revised Internal Audit Plan 2017/18

FOR INFORMATION

Section 2 – Report

Introduction

2.1. At the last GARMS Committee meeting it was reported that the Internal Audit Plan 2017/18, agreed by GARMS Committee on 05/04/17, would need to be revised to enable emerging higher risks to be reviewed and to accommodate the earlier timeframe for the production of the Annual Governance Statement.

Revised Internal Audit 2017/18

2.2 The nature of risk based planning, as opposed to the more traditional cyclical planning, requires a more flexible approach to be taken to enable the Internal Audit service to address risks facing the Council as they change. Over the last few years this has resulted in changes being made to the plan at mid-year to recognise emerging risks. Five emerging risks reviews have been identified and started in Q2/Q3 of 2017/18, three of which were highlighted at the last meeting, that will require some changes to the current plan.

2.3 The Accounts and Audit Regulations 2015, require Local Authorities to prepare a Statement of Accounts in accordance with proper practices. The regulations also require an authority to conduct a review at least once in a year of the effectiveness of its system of internal control and include a statement reporting on the review (the AGS) with any published Statement of Accounts. In previous years the draft Statement of Accounts was required to be prepared by 30 June with the final required by 30 September however from 2017/18 the deadline will be 31st May 2018 for the draft and 31st July 2018 for the final. The consequence of this is that the annual review of governance will need to be started in Q4 2017/18 rather than undertaken in Q1 of 2018/19 requiring some changes to the current plan.

2.4 It is estimated that up to 121 audit days will be required for the review of emerging risks in the 2017/18 plan (this is a slight increase on the 89 reported at the last meeting) and to bring the annual review of governance forward into Q4. To compensate for this reviews equating to 120 audit days have been identified as potential carry-forwards to 2018/19 (90 reported to the last meeting). The increase in days added and taken out of the plan reflects two additional emerging risks – Special Needs Transport and Regeneration/Capital Governance structure Wherever possible the reviews to be delayed are those that due to service developments it is more appropriate to delay the review or where, with the agreement of management, the risk is not considered as high as any emerging risks. The Revised Internal Audit Plan 2017/18 is attached – Appendix 1 and the tables in paragraphs 2.5 and 2.6 below highlight the changes made.

2.5 The table 1 below shows work on the 2017/18 that will be considered for carry forward to 2018/19 to allow time for dealing with emerging risks (see table 2 below) and an earlier review of Corporate Governance to meet new reporting deadlines.

Table 1

Review	Audit Risk Rating	Quarter	Days in Plan	Comments
Cyber Security Response	M	Q1	10	PwC – earlier system review to be finalised before commencement possible c/f to 2018/19 as medium risk
Spending Controls	H	Q2	20	To be considered for c/f to 2018/19 - to be implemented by Finance before review can commence
Access Harrow - Supporting Documents	H	Q3	15	To be considered for c/f to 2018/19
Homelessness – preventative work	H	Q3	10	To be considered for c/f to 2018/19 after the Homelessness Reduction Bill has been considered
Homelessness Data on Northgate	H	Q3/4	10	To be considered for c/f to 2018/19
Schools Financial Management System + Education Management System	H	Q4	10	To be considered for c/f to 2018/19
School Funding	H	Q4	10	To be considered for c/f to 2018/19
Financial Regulations	H	Q4	10	To be considered for c/f to 2018/19 as new regs not yet drafted
Corporate Policies	M	Q4	5	To be considered for c/f to 2018/19 as medium risk
Culture	H	Q4	20	To be considered for c/f to 2018/19
TOTAL			**120**	

2.6 Table 2 below shows emerging risks to be reviewed as part of the 2017/18 plan and the impact of the changes to the AGS deadline.

Table 2

Review	**Audit Risk Rating**	**Quarter**	**Days added to Plan**	**Reason Added/Progress**
Parking Ticket Overpayments	H	Q2/3/4	20	Investigation of concerns raised by staff – Q4 draft report
Harrow Arts Centre	H	Q3/4	18	Review agreed following SFI 2016/17 – Q4 draft report
Welldon Park Primary School Teaching Assistants Report	H	Q2	13	To investigate the payments to Teaching Assistants for providing cover for teachers and the methods of payments both historic and pending.– Q4 Awaiting response to draft report
Special Needs Transport	H	Q4	20	Review of savings realisation and service engagement – Q4 Planning
Regeneration/Capital Governance Structure	H	Q3/Q4	20	To advise on a new governance structure – Q4 Proposed structure agreed by CSB, ToR for Board being drafted
Corporate Governance	Requirement	Q4	+30	Additional days required in plan due to changing reporting deadlines requiring annual review of governance to be undertaken in Q4 2017/18 instead of Q1 2018/19
Total			**121**	

2.7 The net impact of the changes will be to increase the 2017/18 plan by 1 audit day.

Section 3 – Further Information

3.1 The next report on Internal Audit and the Corporate anti-Fraud Team will be the 2018/19 draft plan to be submitted to GARMS Committee in April 2018.

Section 4 – Financial Implications

4.1 There are no financial implications to this report.

Section 5 - Equalities implications

5.1 There are no equalities implications.

Section 6 – Corporate Priorities

6.1 Internal Audit contributes to all the corporate priorities by enhancing the robustness of the control environment and governance mechanisms that directly or indirectly support these priorities.

Name: Dawn Calvert	✓	Chief Financial Officer
Date: 17/01/18		

Section 7 - Contact Details and Background Papers

Contact: Susan Dixson, Head of Internal Audit & Corporate Anti-Fraud, Tel: 0208 424 1420

Background Papers: None

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HARROW COUNCIL
REVISED INTERNAL AUDIT PLAN 2017/18

Revised Internal Audit Plan 2017/18 — APPENDIX 1

Review Area/*Links Harrow Ambition Plan 2020*	**Risk Assessment[1]**	**Proposed Audit Coverage**	**Audit Days**	**Q**	**Director/Divisional Director**	**Lead Manager**
Reliance/Assurance Reviews (Resources Directorate)						
Business Rates	H	Key Control Review, Walkthrough Test	15	Q1	Carol Cutler	Fern Silverio/Lynn Allaker
Capital Expenditure	H	Key Control Review, Walkthrough Test	20	Q1	Dawn Calvert	Paul Gower
Housing Benefit (Fraud risk covered 2016/17)	H	Evidence Based Control Self- Assessment	1.5	Q1	Carol Cutler	Fern Silverio/Jenny Townsley
Housing Rents	M	Evidence Based Control Self- Assessment	1.5	Q1	Dawn Calvert/ Nick Powell	Milan Joshi
Corporate Accounts Receivable	H	Evidence Based Control Self- Assessment	1.5	Q1	Carol Cutler	Jonathan Milbourn/ Kireen Rooney
Corporate Accounts Payable	H	Evidence Based Control Self- Assessment	1.5	Q1	Carol Cutler	Jonathan Milbourn/ Kireen Rooney
Payroll	H	Evidence Based Control Self- Assessment	1.5	Q1	Frances Mills	Mark King
Treasury	M	Evidence Based Control Self- Assessment	1.5	Q1	Dawn Calvert	Ian Talbot
Council Tax	H	Evidence Based Control Self- Assessment	1.5	Q1	Carol Cutler	Fern Silverio/Lynn Allaker

[1] Wherever possible risk ratings are taken from the Corporate (prefix CR), an audit risk assessment is undertaken for all other reviews.

HARROW COUNCIL
REVISED INTERNAL AUDIT PLAN 2017/18

Fraud Risk/Fraud Prevention						
Agency Staff - ID's/Right to Work/References	M	A review of the robustness of checks undertaken by Pertemps to prevent fraud	15	Q3	Terry Brewer	Munira Kachwala
Business Rates on Empty properties + Small Business Rate Relief	H	A review of the robustness of controls in place to prevent fraud	15	Q3	Carol Cutler	Fern Silverio/Lynn Allaker
Waste - Landfill, recycling, weighbridge	H	A review of the procurement of waste related services to ensure robust controls in place to protect the Council from organised crime following report from the Home Office expand to cover income collection for weighbridge, out of borough and any other.(SD 09/08/17)	15	Q3	Simon Baxter	Alan Whiting
Corporate Compliance Checks						
Corporate Risk Based/Governance Reviews						
Corporate Governance	Requirement under the Accounts & Audit Regulations 2015	Co-ordination of the 2016/17 annual review of governance against the new Cipfa/Solace Delivering Good Governance in Local Government Framework 2016 plus drafting of the Annual Governance Statement and developing a new governance structure Co-ordination of the 2017/18 annual review of governance and drafting the AGS	60	Q1-Q4	Chief Executive/Leader/ GARMS	Corporate Governance Group
Shared Service Governance ***Be More Business-like and Business Friendly***	Requirement of Cipfa/Solace Delivering Good Governance in Local Government Framework 2016	Development and co-ordination of a self-assessment process to access the adequacy of governance arrangements in place for shared services across the Council	5	Q1	Chief Executive/Leader/ GARMS	Corporate Governance Group
Risk Management	Governance requirement	Update of the Corporate Risk Register/Risk Appetite Statement and Risk Management Policy/Procedures	65	Q1-Q4	CSB/GARMS	Corporate Directors

Information Governance Board (IGB)	M	To ensure that the Council has effective polices & management of information governance risks. Quarterly review of security breaches + HIA on Board.	5	Q1-Q4	SIRRO (Tom Whiting)	IGB
Cabinet Decisions	H	Consideration of the quality/robustness of information supplied in Cabinet reports to support key recommendations and ensure sound decisions to be incorporated into other reviews as appropriate	10	Q2	Hugh Peart	Relevant managers
Review of Expenditure	CR2 - H	Analysis of a sample of budgets across the Council to ensure that resources are being used in accordance with agreed policy and Council priorities in order to achieve desired outcomes for service users	20	Q3	Dawn Calvert	Specific DDs depending on sample
Commercialisation ***Be More Business-like and Business Friendly***	CR13 - M	A review to determine if the key aims and objectives of the Commercialisation Strategy are being met, that governance is adequate and lessons are learnt	25	Q2	Terry Brewer	Specific DDs depending on area
Directorate Risk Based Reviews Resources						
Financial Regulations	Governance	Feeding into the review and update of Financial Regulations	5	Q2	Dawn Calvert	Sharon Daniels
Contract Management	H	Per-temps Contract or sample of medium contracts (to be determined by risk assessment) c/f 16/17	10	Q2	Terry Brewer	Anand Pajpani
Council Tax - Severely Mentally Impaired (SMI) Exemption	H	To review the application , assessment and review process	5	Q4	Carol Cutler	Fern Silverio/Lynn Allaker
FB60	H	Review of the use and compliance with agreed procedure	5	Q4	Terry Brewer	Specific DDs depending on area
New Supplier Set Up	H	To review the new system to set up suppliers to ensure robust controls in place	2	Q1	Terry Brewer	Terry Brewer
Parking Ticket Overpayments **(Emerging Risk)**	H	Investigation of concerns raised by staff	20	Q2/3/4	Carol Cutler	Fern Silverio
Community Risk Based Reviews						
Facilities Management Contract	H	Contract Management Review c/f 16/17	10	Q4	Venetia Reid-Baptiste	May Patel

Major Works – Leaseholders	H	Review of charges to leaseholders for major works c/f 16/17 as updated version of Northgate implemented Feb 17	15	Q4	Nick Powell	Karen Connell/Andrew Campion
100 Homes Project ***Corporate Priorities: Protect the Most Vulnerable and Support Families*** *and* ***Build a Better Harrow***	CR1 - H	Governance Arrangements	10	Q3	Nick Powell	Alison Pegg
Harrow Arts Centre **(Emerging Risk)**	H	Review agreed following SFI 2016/17 – Q4 draft report	18	Q3/4	Simon Baxter	Tim Bryan
Special Needs Transport **(Emerging Risk)**	H	Review of savings realisation and service engagement	20	Q4	Venetia Reid-Baptiste	Lenny Lawrence
		Regeneration				
Regeneration Programme ***Corporate Priority: Build a Better Harrow***	CR27 – M	Procurement Process/ Financial Management/ Land Deals to be determined via a risk process in consultation with management c/f 16/17	20	Q1/2	Michael Lockwood	Paul Nichols
Planning ***Corporate Priority: Build a Better Harrow***	H	A review of the planning process to ensure sound, timely and transparent decisions are made	20	Q3	Michael Lockwood	Paul Nichols
Regen/Capital Governance Structure **(Emerging Risk)**	H	To advise on a new governance structure	20	Q3/Q4	CSB	Paul Walker
		People				
Schools ***Corporate Priority: Build a Better Harrow***	H	Thematic Reviews covering areas such as; Procurement; Landlord/Tenant Responsibilities; Fraud Risk; PayPolicy/Performance Management; Budget Management; Governance & Financial Control	100	Q2-Q4	Patrick O'Dwyer	Headteachers
Welldon Park Primary School Teaching Assistants Report **(Emerging Risk)**	H	To investigate the payments to Teaching Assistants for providing cover for teachers and the methods of payments both historic and pending. (See table 3 above) – Q4 Awaiting response to draft report	13	Q2	Patrick O'Dwyer	Headteacher
SFVS Assurance Statement	n/a	Review of the statutory return to the Department Education to be signed by the s151 Officer confirming the number of Schools to complete the Schools Financial Value Standard (SFVS) self-	5	Q1	Dawn Calvert	Headteachers

		assessment.				
Families First (Troubled Families Grant) ***Corporate Priority: Protect the Most Vulnerable and Support Families***	CR13 & 17 – M	Testing and Grant certification required	10	Q1-Q4	Paul Hewitt	Charisse Monero
Adult Residential Care ***Corporate Priority: Protect the Most Vulnerable and Support Families***	CR11 - H	A review of commissioning of adult residential care c/f 2016/17	20	Q3	Bernie Flaherty	Chris Greenway
Personal Budgets ***Corporate Priority: Protect the Most Vulnerable and Support Families***	CR3 - H	A review covering financial assessments, monitoring/recovery of funds, and review of care packages	20	Q3	Bernie Flaherty	Visva Sathasivam
Multi-Agency Safeguarding Hub (MASH) ***Corporate Priority: Protect the Most Vulnerable and Support Families***	CR4 - H	Follow-up of external review undertaken in 2015/16 deferred from 16/17 plan due to Ofsted	20	Q2	Paul Hewitt	Parmjit Chahal
Support, Advice & Follow-up						
Suspected Financial Irregularities + Control Reviews	H	Support & guidance to managers on investigations	30	Q1-Q4		
Professional Advice	n/a	Advice on risk mitigation & control	20	Q1-Q4		
Follow-up	n/a	Follow-up of Red, Red/Amber & Amber reports	45	Q1-Q4		
External Audit Liaison	n/a	Liaison with the new External Auditors	8	Q1-Q4		
TOTAL REVISED PLAN 2017/18			**751.5**			

Susan Dixson
Head of Internal Audit & Corporate Anti-Fraud

January 2018

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REPORT FOR: **GOVERNANCE, AUDIT, RISK MANAGEMENT AND STANDARDS COMMITTEE**

Date of Meeting:	30 January 2018
Subject:	Treasury Management Strategy Statement including Prudential Indicators, Minimum Revenue Provision Policy Statement and Annual Investment Strategy for 2018/19
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	Appendix A – Legislation and Regulations Impacting on Treasury Management Appendix B – Treasury Management Delegations and Responsibilities Appendix C – Minimum Revenue Provision (MRP) Policy Statement Appendix D – Interest Rate Forecasts 2018-21 Appendix E - Economic Background Appendix F – Counterparties Appendix G - Affordability Prudential Indicators

Harrow COUNCIL LONDON

Summary

This report sets out the Council's Treasury Management Strategy Statement including Prudential Indicators, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2018/19.

Recommendation

Cabinet is asked to recommend to Council that they approve the Treasury Management Strategy Statement for 2018/19 including:

- Prudential Indicators for 2018/19
- Minimum Revenue Provision Policy Statement for 2018/19;
- Annual Investment Strategy for 2018/19
- Increase in investments held over 365 days (Paragraph 81)

Reason

To promote effective financial management and comply with the Local Authorities (Capital Finance and Accounting) Regulations 2003 and other relevant guidance.

	APPENDICES	
A	Legislation and Regulations Impacting on Treasury Management	
B	Treasury Management Delegations and Responsibilities	
C	Minimum Revenue Provision (MRP) Policy Statement	
D	Interest Rate Forecasts 2018-21	
E	Economic Background	
F	Counterparties	
G	Affordability Prudential Indicators	

Section 2 – Report

1. INTRODUCTION

1.1 Background

1. The Chartered Institute of Public Finance and Accountancy (CIPFA) defines Treasury Management as:

   “The management of the local authority’s borrowing investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

2. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. The first main function of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested with approved counterparties or instruments commensurate with the Council’s current investment strategy, providing adequate liquidity initially before considering investment return.

3. The second main function of the Treasury Management service is the funding of the Council’s capital programme. This programme provides a guide to the borrowing need of the Council, essentially the longer term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans or using longer term cash flow surpluses. On occasion, any debt previously drawn may be restructured to meet Council risk or cost objectives.

4. The Local Government Act 2003 and supporting regulations require the Council to ‘have regard to’ the Prudential Code (The Prudential Code for Capital Finance in Local Authorities [CIPFA 2017 Edition]) and Treasury Management Code (Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes [CIPFA 2017 Edition]), in setting Treasury and Prudential Indicators for the next three years and in ensuring that the Council’s capital investment programme is affordable, prudent and sustainable.

5. The Act, the Codes and Department for Communities and Local Government Investment Guidance (2010) require the Council to set out its Treasury Strategy for Borrowing and to prepare an Annual Investment Strategy that establishes the Council’s policies for managing its investments and for giving priority to the security and liquidity of those investments. A summary of the relevant legislation, regulations and guidance is included as Appendix A.

6. The budget for each financial year includes the revenue costs that flow from capital financing decisions. Under the Treasury Management Code,

increases in capital expenditure should be limited to levels whereby increases in interest charges and running costs are affordable within the projected income of the Council for the foreseeable future.

7. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

8. The Council recognises that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

1.2 CIPFA requirements

9. The Council has formally adopted the Treasury Management Code, the primary requirements of which are as follows:

    - Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

    - Creation and maintenance of Treasury Management Practices ("TMPs") that set out the manner in which the Council will seek to achieve those policies and objectives.

    - Receipt by the full Council and/or Cabinet of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Half-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.

    - Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

    - Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body.

1.3 Reporting requirements

10. As introduced above, the Council and/or Cabinet are required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Treasury Management Strategy Statement report (this report) - The first, and most important report is presented to the Council in February and covers:

- the capital programme (including Prudential Indicators);
- an MRP Policy (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an Investment Strategy (the parameters on how investments are to be managed).

Mid-year Review report – This is presented to Cabinet in the autumn and updates Members on the progress of the capital position, reporting on Prudential Indicators and recommending amendments when necessary and identifying whether the treasury strategy is meeting the objectives or whether any policies require revision.

Treasury Management Outturn report – This is presented to Cabinet in June/July and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the Strategy.

Scrutiny - The above reports are required to be adequately scrutinised, normally before being recommended to Cabinet / Council, with the role being undertaken by the Governance, Audit, Risk Management and Standards Committee (GARMSC). GARMSC

Capital Strategy

In December 2017, CIPFA issued revised Prudential and Treasury Management Codes. As from 2019-20, all local authorities will be required to prepare an additional report, a Capital Strategy report, which is intended to provide the following: -

- *a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services*
- *an overview of how the associated risk is managed*
- *the implications for future financial sustainability.*

The aim of this report is to ensure that all elected members on the full council fully understand the overall strategy, governance procedures and risk appetite entailed by this Strategy.

The Capital Strategy will include capital expenditure, investments and liabilities and treasury management in sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.

11. The Council has delegated responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Section 151 officer. The Section 151 Officer chairs the Treasury Management Group (TMG), which monitors the treasury management activity and market conditions.

12. Further details of responsibilities are given in Appendix B.

1.4 Training

13. The Treasury Management Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in this area. This especially applies to Members responsible for scrutiny.

14. The training needs of Treasury Management officers are periodically reviewed as part of the Learning and Development programme with appropriate training and support provided.

1.5 Treasury Management Adviser

15. The Council has engaged Link Asset Services (was Capita Asset Services), Treasury Solutions as its external Treasury Management Adviser.

16. However, the Council recognises that responsibility for treasury management decisions remains with itself at all times and will ensure that undue reliance is not placed upon external service providers.

17. 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 is assessed are properly agreed and documented, and subjected to regular review.

1.6 Treasury Management Strategy for 2018/19

18. The Strategy covers:-

Capital Issues (Section 2)

- Capital programme and capital prudential indicators 2018-19 to 2020-21 (Sub-section 2.1);
- Capital Financing Requirement (Sub-section 2.2);
- Minimum Revenue Provision Policy Statement (Sub-section 2.3 and Appendix C); and
- Core funds and expected investment balances (Sub-section 2.4).

Treasury Management Issues

- <u>Borrowing (Section 3)</u>
  - Current and estimated portfolio position (Sub-section 3.1);
  - Treasury indicators: limits to borrowing activity (Sub-section 3.2);

- Prospects for interest rates and economic commentary (Sub-section 3.3 and Appendices D and E);
- Borrowing strategy (Sub-section 3.4);
- Treasury management limits on activity (Sub-section 3.5);
- Policy on borrowing in advance of need (Sub-section 3.6); and
- Debt rescheduling (Sub-section 3.7).

- Annual Investment Strategy (Section 4)
  - Investment policy (Sub-section 4.1);
  - Creditworthiness policy (Sub-section 4.2);
  - Country limits (Sub-section 4.3);
  - Annual Investment Strategy (Sub-section 4.4);
  - Investment risk benchmarking (Sub-section 4.5); and
  - End of year investment report (Sub-section 4.6).

Affordability Prudential Indicators (Section 5 and Appendix G)

19. These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the Department for Communities and Local Government (DCLG) Minimum Revenue Provision Guidance, the CIPFA Treasury Management Code and DCLG Investment Guidance.

20. It is not considered necessary to produce a separate treasury strategy for the Housing Revenue Account (HRA) in light of the co-mingling of debt and investments between HRA and the General Fund. Where appropriate, details of allocations of balances and interest to HRA are contained in this report.

1.7 Options Considered

21. No options were considered beyond those discussed in the report due to the statutory and risk management constraints inherent in treasury management.

2. CAPITAL ISSUES

22. The Council’s capital expenditure programme is the key driver of treasury management activity. The output of the programme is reflected in the Prudential Indicators, which are required by the Prudential Code and are designed to assist Members’ overview. The values shown in the tables for 2016-17 and 2017-18 are actual and estimated outturn respectively and not the strategy for those years.

2.1 Capital Programme and Capital Prudential Indicators 2018-19 to 20-21

23. This prudential indicator is a summary of the Council's capital expenditure based on the approved capital programme. Amendments may be necessary in the light of decisions taken during the budget cycle. The table below summarises the capital programme and the ways in which it will be financed. Any shortfall of resources results in a financing need.

Table 1 Capital Expenditure and Funding

	2016/17	2017/18	2018/19	2019/20	2020/21
	Actual	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Expenditure					
Community	38,475	35,244	41,822	28,160	14,373
People Services	17,017	23,462	7,870	7,200	-
Regeneration & Enterprise	1,699	195	884	726	201
Regeneration Programme	8,757	17,231	70,720	165,092	32,248
Resources & Commercial	12,200	11,989	3,738	5,700	4,700
HRA	**11,603**	**13,301**	**19,931**	**19,883**	**13,836**
Total Expenditure	**89,751**	**101,422**	**144,965**	**226,761**	**65,357**
Funding:-					
Capital grants	22,208	26,392	9,654	9,743	5,344
Capital receipts	3,013	2,575	11,064	35,642	53,931
Revenue financing	7,287	8,349	7,418	5,294	6,911
Section 106 / Section 20/ CIL	1,656	549	4,618	3,474	509
Total Funding	**34,164**	**37,866**	**32,754**	**54,153**	**66,695**
Net financing need for the year	**55,587**	**63,557**	**112,211**	**172,607**	**- 1,338**

The figures above are draft as the capital programme overall is being agreed to 2020/21 as part of the overall Budget at Cabinet in February 2018.

2.2 Capital Financing Requirement

24. The Capital Financing Requirement (CFR) is 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. Any new capital expenditure, which has not immediately been paid for, will increase the CFR.

25. The CFR does not increase indefinitely, as the MRP is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life.

26. The CFR includes any other long term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a funding facility and so the Council is not required to borrow separately for them. The Council currently has £16m of such schemes within the CFR.

27. CFR projections are included in the table below.

Table 2 Capital Financing Requirement

	2016/17	2017/18	2018/19	2019/20	2020/21
	Actual	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
CFR as at 31 March					
Non – HRA	328,851	378,190	469,316	620,618	593,592
HRA	152,541	152,541	154,701	154,685	154,669
TOTAL	**481,392**	**530,731**	**624,017**	**775,303**	**748,261**
Movement in CFR	**42,751**	**49,339**	**93,286**	**151,286**	**- 27,042**

Movement in CFR represented by					
Net financing need for the year	55,587	63,557	112,211	172,607	- 1,338
Less Minimum/Voluntary revenue provision and other financing movements	12,836	14,218	18,925	21,321	25,704

The Non-HRA CFR increases over the five years from £329m to £594m reflecting the regeneration programme, the property investment portfolio, secondary school expansion, the redevelopment of the depot, the renewal and replacement of highways, footways and streetlighting and upgrades and enhancements to ICT systems. Through a special determination the debt limit for the HRA has been increased to £154.7m and work will be carried out in line with this increase.

2.3 Minimum Revenue Provision (MRP) Policy Statement

28. Capital expenditure is generally defined as expenditure on assets that have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. The accounting approach is to spread the cost over the estimated useful life of the asset. The mechanism for spreading these costs is through an annual MRP. The MRP is the means by which capital expenditure, which is financed by borrowing or credit arrangements, is funded by Council Tax.

29. Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) require the Council to approve an MRP Statement setting out what provision is to be made in the General Fund for the repayment of debt, and how the provision is to be calculated. The purpose of the Statement is to ensure the provision is prudent, allowing the debt to be repaid over a period reasonably commensurate with that over which the capital expenditure benefits. The Council is recommended to approve the statement as detailed in Appendix C.

30. There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made.

2.4. Core funds and expected investment balances

31. The application of resources (grants, capital receipts etc.) to finance capital expenditure or budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.).

Table 3 Core Funds and expected investment balances

Year End Resources	2016/17	2017/18	2018/19	2019/20	2020/21
	Actual	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Fund Balances/Reserves	61,877	50,083	41,383	39,573	22,523
Capital Receipts Reserve	22,649	16,393	16,393	17,305	10,380
Provisions	10,315	10,033	9,843	9,843	9,843
Other	19,568	14,676	11,007	8,255	6,191
Total Core Funds	**114,409**	**91,185**	**78,626**	**74,976**	**48,937**
Working Capital	- 73,918	-129,821	-123,770	-106,693	-107,621
Under/(Over) Borrowing	140,958	191,007	172,397	151,669	126,558
Expected Investments	47,369	30,000	30,000	30,000	30,000
Total	**114,409**	**91,185**	**78,626**	**74,976**	**48,937**

The above table assumes that expected investment balance will be kept at approximately £30m and that the working capital and borrowing position will be managed to effect this.

3. BORROWING

32. The capital expenditure programme set out in Paragraph 23 provides details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet the activities of the Council. This involves both the organisation of the cash flow and, where the capital programme requires it, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current and estimated portfolio position

33. The Council's borrowing position at 31 December 2017 is summarised below.

Table 4 Summary Borrowing and Investment Position at 31 December 2017

		Principal		Ave. rate
		£m	£m	%
Fixed rate funding	PWLB	218.6		
	Market	106.0	324.6	4.13
Variable rate funding				
Other long term liabilities (PFI & leases)			16.0	
Total Debt			**340.6**	
Total Investments at 31.12.2017			**47.4**	**0.22**

34. The Council has borrowed £50.8m under Lender Option, Borrower Option (LOBO) structures with maturities between 2050 and 2077. In exchange for an interest rate that was below that offered on long term debt by the PWLB, the lender has the option at the end of five years (and half yearly thereafter) to reset the interest rate. If the rate of interest changes, the Council is permitted to repay the loan at no additional cost.

35. The Council's borrowing position with forward projections is summarised below. The table shows the actual external debt, against the underlying capital borrowing need, highlighting any under or over borrowing.

36. The expected change in debt in 2018/19, 2019/20 and 2020/2021 reflects the anticipated borrowing necessary to meet the capital programme described in Table 1.

37. Debt outstanding should not exceed CFR.

Table 5 Changes to Gross Debt

	2016/17	2017/18	2018/19	2019/20	2020/21
	Actual	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
External Debt					
Debt at 1 April	334,434	324,434	324,434	436,645	609,252
Expected change in Debt	- 10,000	-	112,211	172,607	- 1,338
Other long-term liabilities (OLTL) 1st April	17,032	16,161	15,568	14,975	14,382
Expected change in OLTL	- 1,032	- 871	- 593	- 593	- 593
Actual gross debt at 31 March	340,434	339,724	451,620	623,634	621,703
Capital financing requirement	481,392	530,731	624,017	775,303	748,261
Under / (Over) borrowing	**140,958**	**191,007**	**172,397**	**151,669**	**126,558**

38. Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt 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 2018/19 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.

39. The Director of Finance reports that the Council 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 programmes and the proposals in the budget report.

40. The table below shows the net borrowing after investment balances are taken into account.

Table 6 Net Borrowing

	2016/17	2017/18	2018/19	2019/20	2020/21
	Actual	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Gross Borrowing brought forward 1 April	351,466	340,434	339,563	451,181	623,195
Changes to Gross Borrowing	-11,032	-871	111,618	172,014	-1,931
Carry Forward 31st March	**340,434**	**339,563**	**451,181**	**623,195**	**621,264**
Investment brought forward 1 April	76,233	47,369	30,000	30,000	30,000
Changes to Gross Investments	-28,864	-17,369	0	0	0
Carry Forward 31st March	**47,369**	**30,000**	**30,000**	**30,000**	**30,000**
Total Net Borrowing	**293,065**	**309,563**	**421,181**	**593,195**	**591,264**
Change in net borrowing	**17,832**	**16,498**	**111,618**	**172,014**	**-1,931**

The change in net borrowing in 2017/18 arises mainly from the reduction in cash balances of £16 m and in subsequent years from additional borrowing.

3.2 Treasury indicators: limits to borrowing activity

The Operational Boundary

41. This is the limit which external debt is not normally expected to exceed.

42. The boundary is based on the Council's programme for capital expenditure, capital financing requirement and cash flow requirements for the year.

The Authorised Limit for External Debt.

43. This is a further key prudential indicator which represents a control on the maximum level of borrowing. It represents a limit beyond which external debt is prohibited. It relates to the financing of the capital programme by both external borrowing and other forms of liability, such as credit arrangements.

44. 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' programmes, or those of a specific council, although this power has not yet been exercised.

Table 7 Operational boundary and authorised limit

	2016/17	2017/18	2018/19	2019/20	2020/21
	Actual	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
Authorised Limit for external debt					
Borrowing and finance leases	469	531	624	775	748
Operational Boundary for external debt					
Borrowing	334	334	452	624	622
Other long term liabilities	16	16	15	14	14
Total	350	350	467	638	636
Upper limit for fixed interest rate exposure					
Net principal re fixed rate borrowing	334	334	452	624	622
Upper limit for variable rate exposure					
Net principal re variable rate borrowing	-	-	-	-	-
Upper limit for principal sums invested over 364 days	60	60	60	60	60

Due to the Council's current under borrowing position it is considered sufficient to set the Authorised limit at the same level as the CFR.

As shown in Table 11 in Appendix F below, the Council may wish to make additional investments of over 365 days. The current limit for such investments is £60m.

HRA Debt Limit

45. Separately, the Council is also limited to a maximum HRA debt through the HRA self-financing regime. This limit and the HRA CFR are shown in the table below. An application has been made to DCLG to increase the HRA debt limit.

Table 8 HRA Debt Limit and CFR

	2016/17	2017/18	2018/19	2019/20	2020/21
	Actual	Estimate, Qtr 3	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
HRA Debt Limit	154.843	154.843	154.843	154.843	154.843
HRA CFR	149.537	151.492	154.668	154.779	156.268
Headroom	5.306	3.351	0.175	0.064	-1.425

3.3 Prospects for interest rates and economic commentary

46. The Treasury Management Adviser has provided a commentary on the prospects for interest rates included as Appendix D and an economic commentary included as Appendix E.

3.4 Borrowing strategy

47. As shown in Table 5 above, currently the Council has a debt portfolio of £340m, mainly long term, with an average maturity of 35 years assuming no early repayment of the LOBO loans. Adjusting LOBO loans maturity in line with the next interest reset date reduces the average maturity to 25 years. Cash balances at 31 December 2017 were £47.1m. With the investment portfolio yielding only 0.22% and the likely average cost of new debt 2.6%, there is a substantial short term cost of carrying excessive debt.

48. As shown in Table 5 above the Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (CFR), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary source of funding. This strategy is prudent with investment returns low and counterparty risk is still an issue to be considered.

49. However, with the reduction in cash balances and the likelihood that they will be further reduced by the end of 2017/18 much of the increased capital programme in the next few years will need to be funded from borrowing. As shown in Table 5 above, it is currently estimated that sums of £112m, and £172m will need to be borrowed in the next two years. The Council will have a range of funding sources available and will need to base its decisions on optimum borrowing times and periods taking into account current interest rates and likely future movements and the "cost of carry" (difference between rates for borrowing and rates for investments) which currently remains high. A strategy is being developed in consultation with the Treasury Management Adviser. It is also possible, but unlikely, that new long term borrowing in the next three years might be required if part of the LOBO portfolio has to be refinanced early.

50. It may be necessary to resort to temporary borrowing from the money markets or other local authorities to cover mismatches in timing between capital grants and payments. However, with several Government grants now paid early in the financial year this is not very likely.

51. Against this background and the risks within the economic forecast, caution will be adopted in the 2018/19 treasury management operations. The Director of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was 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 potential rescheduling from fixed rate funding into short term borrowing will be considered.

- if it was 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 an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

52. The Council has adopted a single pooled approach for debt. Allocations to HRA are based on its CFR, with interest charged to HRA at the average rate on all external borrowing. Longer term, the HRA's ability to repay borrowing will depend on future revenues and the capital expenditure programme.

3.5 Treasury management limits on activity

53. There are three debt related treasury activity limits. The purpose of these is to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs and improve performance.

Upper limit on variable interest rate exposure

54. This identifies a maximum limit for variable interest rates based upon the debt position net of investments. As shown in Table 7 above the Council does not expect to undertake any borrowing on this basis.

Upper limit on fixed interest rate exposure

55. This identifies a maximum limit for fixed interest rates based upon the debt position net of investments. The Council's proposed limits are shown in Table 7 above

Maturity Structure of Borrowing

56. 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.

57. The Council has no variable rate borrowing and the comments below relate only to its fixed rate portfolio.

58. In the table below, the maturity structure for the LOBO debt, in accordance with CIPFA Guidance, is shown as the first date that the interest rate can be increased.

Table 9 Maturity Structure of Fixed Rate Borrowing

	As at 31.12.2017 %	**Upper limit %**	**Lower limit %**
Under 12 months	16%	30	0
12 months to 23 months	7%	20	0
24 months to under 5 years	2%	30	0
5 years to under 10 years	2%	40	0
10 years and over	74%	90	30

3.6 Policy on borrowing in advance of need

59. The Council will not borrow more than, or in advance of, its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved CFR estimates and future authorised limits, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

60. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.7 Debt rescheduling

61. Link Asset Services currently advise that:

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- *the generation of cash savings and / or discounted cash flow savings;*
- *helping to fulfil the treasury strategy;*
- *enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).*

62. Opportunities to reduce the cost of debt by premature repayment or to improve the maturity profile are kept under review in discussion with the Treasury Management Adviser. Early repayment of market loans is by negotiation. For PWLB loans, there are daily published prices for early repayment that allows analysis of the opportunities for restructuring. There is currently a spread which has generally made restructuring uneconomic.

63. Should any of the LOBO loans with interest rate reset dates in 2018-19 (£50.8m) require refinancing, the most likely source would be external borrowing.

64. All rescheduling will be reported to Cabinet at the earliest meeting following the exercise.

4. Annual Investment Strategy

4.1 Investment policy

65. The Council’s investment policy has regard to the Department for Communities and Local Government Investment Guidance and the CIPFA Treasury Management Code. The Council’s investment priorities will be security first, liquidity second, then return.

66. Advice received from Link Asset Services is:

We remain in a very difficult investment environment. Whilst counterparty risk appears to have eased, market sentiment has still been subject to bouts of, sometimes, extreme volatility and economic forecasts abound with uncertainty. However, we also have a very accommodating monetary policy - reflected in a 0.50% Bank Rate. As a consequence, authorities are not getting much of a return from deposits. Against this backdrop it is, nevertheless, easy to forget recent history, ignore market warnings and search for that extra return to ease revenue budget pressures. In this respect, we are seeing an increase in investment "opportunities" being offered to clients or being discussed in the wider press. What then, should you consider when these are offered?

We suggest that you "look under the bonnet" when considering pooled investment vehicles, although this applies to any investment opportunity. It is not enough that other councils are investing in a scheme or an investment opportunity: you are tasked through market rules to understand the "product" and appreciate the risks before investing. A quote from the Financial Conduct Authority puts the environment in context.

> *The main risks in the industry for the coming year are firms designing products that: -*
> - *aren't in the long-term interest of consumers*
> - *don't respond to their needs*
> - *encompass a lack of transparency on what's being sold*
> - *lead to a poor understanding by consumers of risk*
> - *shift toward more complex structured products that lack oversight.*

67. In accordance with the above guidance and in order to minimise the risk to investments, the Council in Appendix F clearly stipulates 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. The Treasury Management Adviser monitors counterparty ratings on a real time basis with knowledge of any changes advised electronically as the agencies notify modifications.

68. Further, 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 assess continually 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 Adviser to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

69. The aim of the strategy is to generate a list of highly creditworthy counterparties which will provide security of investments, enable divesification and minimise risk.

70. Investment instruments identified for current use are listed in Appendix F under the ‘specified’ and ‘non-specified’ investments categories. Counterparty limits will be as set through the Council’s Treasury Management Practices.

4.2 Creditworthiness policy

71. The primary principle governing the Council’s investment criteria is the security of its investments, although the return on the investment is also a key consideration. After this main principle, the Council will ensure that:

    - 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; and
    - 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.

72. The Director of Finance will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to those which determine which types of investment instrument are either specified or non-specified as they provide an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

73. The minimum rating criteria uses the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council’s minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Council’s criteria, the other does not, the institution will fall outside the lending criteria.

74. Credit rating information is supplied by the Treasury Management Adviser on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

75. The Council’s criteria for an institution to become a counterparty are detailed in Appendix F.

4.3 Country Limits

76. The Council has determined that it will only use approved counterparties from the UK or from countries with a minimum sovereign credit rating of AAA. Currently the only countries meeting this criterion are Australia, Canada, Denmark, Germany, Luxembourg, Netherlands, Norway, Singapore, Sweden and Switzerland. The current UK rating is the third level of AA. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

4.4 Annual Investment Strategy

77**.** **In-house funds.** The Council's funds are mainly cash derived primarily from the General Fund and HRA. Balances are also held to support capital expenditure. From 1st April 2011, pension fund cash balances have been held separately from those of the Council. However, a separate investment strategy has not been developed for the pension fund and all its cash is held on overnight call account with RBS. Investments are made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

78. **Investment returns expectations.** Bank Rate is forecast by Link Asset Services to stay flat at 0.50% until quarter 4 2018 and not to rise above 1.25% by quarter 1 2021. Bank rate forecasts for financial year ends are:

- 2017/18 0.50%
- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.25%

79. Link Asset Services suggest that budgeted investment earnings rates for returns on investments placed for periods of up to 100 days during each financial year are as follows:

2017/18	0.40%
2018/19	0.60%
2019/20	0.90%
2020/21	1.25%
2021/22	1.50%
2022/23	1.75%
2023/24	2.00%
Later years	2.75%

80. Link Asset Services further advise that "the overall balance of risks to these forecasts is currently skewed to the upside and are dependent on how strong GDP growth turns out, how quickly inflation pressures rise and how quickly the Brexit negotiations move forward positively.

81**.** **Investment treasury indicator and limit** - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment. The Council's limit for investments of over 365 days is currently £60m.

82. Throughout 2017-18 interest rates receivable for short term investments have fallen substantially with the Council receiving 0.10% compared to 0.20% at the beginning of the year for deposits of under one month. The Council's bankers also reduced the call account rate from 0.25% to 0.01% in December. The increase in base rate November 2017 has resulted in a slight increase in investment rates in the last quarter.

83. As a consequence of these rates and the maturity of several higher yielding investments the Council's return for the whole year is likely to be close to 0.22%. Whilst this is still above the short term LIBOR benchmark and comparable to peer authorities it represents a substantial reduction from rates earned in previous years.

84. As a result of the Council's strategy and the interest rates available the only counterparties actively in use during 2017-18 have been Lloyds, Royal Bank of Scotland Group and Svenska Handelsbanken. The investment portfolio has inevitably remained concentrated with RBS and Lloyds with 82.5% of the total portfolio invested with them on 31st December 2017. When opportunities arise consistent with the Council's policies diversification will be sought but it is not anticipated that there will be any significant change during 2018-19.

85. Authority has been given to place funds in 'non-standard investments' up to a value of £10m. Officers are considering what investment opportunities and counterparties should be included to utilise this facility.

4.5 Investment risk benchmarking

86. This Council uses the current LIBOR rates as a benchmark to assess the investment performance of its investment portfolio. In addition the Council is a member of a Link Asset Services investment portfolio benchmarking group through which performance is measured against peer London authorities. The risk of default attached to the Council's portfolio is reported by Capita on a monthly basis.

4.6 End of year investment report

87. At the end of the financial year the Council will report on its investment activity as part of the Treasury Management Outturn Report.

5. Affordability Prudential Indicators

88. The previous sections cover the overall capital and control of borrowing Prudential Indicators but within this framework Prudential Indicators are also required to assess the affordability of the capital investment programme. These provide an indication of the impact of the programme on the Council's overall finances and are shown in detail in Appendix G.

6. Implications of the recommendations

89 The recommendations primarily relate to the requirements for the Council to comply with statutory duties. However, the content of the report, covering borrowing and investment strategy, has implications for the Council's ability to fund its capital projects and revenue activities.

90. The recommendations do not directly affect the Council's staffing/workforce.

7. Performance issues

91. The Council meets the requirements of the CIPFA Treasury Management Code and, therefore, is able to demonstrate best practice for the Treasury Management function.

92. As part of the Code the Council must agree a series of prudential indicators and measure its performance against them. Success is measured by compliance with the indicators and the accuracy of future estimates so far as they are within the control of the Treasury Management function.

8. Environmental implications

93. There are no direct environmental implications.

9. Risk management implications

94. The identification, monitoring and control of risk are central to the achievement of treasury management objectives and to this report. Potential risks are identified, mitigated and monitored in accordance with Treasury Management Practice Notes approved by the Treasury Management Group.

95. Risks are included in the Directorate Risk Register.

10. Legal Implications

96. The purpose of this report is to comply with the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 and other relevant guidance referred to in the report.

11. Financial implications

97. Financial matters are integral to the report.

12. Equalities implications / Public sector equality duty

98. Officers have considered possible equalities impact and consider that there is no adverse equalities impact as there is no direct impact on individuals

13. Council priorities

99. This report deals with the Treasury Management Strategy which plays a significant part in supporting the delivery of all the Council's corporate priorities.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert Date: 15th January 2018	X	Director of Finance
Name: Linda Cohen Date: 15th January 2018	x	on behalf of the Monitoring Officer

Ward Councillors notified:	**No**
EqIA carried out: **EqIA cleared by:**	**No** **N/A**

Section 4 - Contact Details and Background Papers

Contact: **Iain Millar** (Treasury and Pensions Manager) Tel: 020-8424-1432/ Email: iain.millar@harrow.gov.uk

Background Papers: N/A

APPENDIX A

LEGISLATION AND REGULATIONS IMPACTING ON TREASURY MANAGEMENT

The following items numbered 1 - 4 show the sequence of legislation and regulation impacting on the treasury management function. The sequence begins with primary legislation, moves through Government guidance and Chartered Institute of Public Finance and Accountancy (CIPFA) codes of practice and finishes with implementation through the Council's own Treasury Management Practices.

1. Local Government Act 2003

Link below

Local Government Act 2003

Below is a summary of the provisions in the Act dealing with treasury management.

In addition the Secretary of State is empowered to define the provisions through further regulations and guidance which he has subsequently done through statutory instruments, Department of Communities and Local Government Guidance and CIPFA codes of practice.

Power to borrow
The Council has the power to borrow for purposes relevant to its functions and for normal treasury management purposes – for example, to refinance existing debt.

Control of borrowing
The main borrowing control is the duty not to breach the prudential and national limits as described below.
The Council is free to seek loans from any source but is prohibited from borrowing in foreign currencies without the consent of Treasury, since adverse exchange rate movements could leave it owing more than it had borrowed.
All of the Council's revenues serve as security for its borrowing. The mortgaging of property is prohibited.
It is unlawful for the Council to 'securitise', that is, to sell future revenue streams such as housing rents for immediate lump-sums.

Affordable borrowing limit
The legislation imposes a broad duty for the Council to determine and keep under review the amount it can afford to borrow. The Secretary of State has subsequently defined this duty in more detail through the Prudential Code produced by CIPFA, which lays down the practical rules for deciding whether borrowing is affordable.
It is for the Council (at a meeting of the full Council) to set its own 'prudential' limit in accordance with these rules, subject only to the scrutiny of its external auditor. The Council is then free to borrow up to that limit without Government

consent. The Council is free to vary the limit during the year, if there is good reason.

Requirements in other legislation for the Council to balance its revenue budget prevents the long-term financing of revenue expenditure by borrowing. However the legislation does confer limited capacity to borrow short-term for revenue needs in the interests of cash-flow management and foreseeable requirements for temporary revenue borrowing are allowed for when borrowing limits are set by the Council.

The Council is allowed extra flexibility in the event of unforeseen needs, by being allowed to increase borrowing limits by the amounts of any payments which are due in the year but have not yet been received.

Imposition of borrowing limits
The Government has retained reserve power to impose 'longstop' limits for national economic reasons on all local authorities' borrowing and these would override authorities' self-determined prudential limits. Since this power has not yet been used the potential impact on the Council is not known.

Credit arrangements
Credit arrangements (e.g. property leasing, PFI and hire purchase) are treated like borrowing and the affordability assessment must take account not only of borrowing but also of credit arrangements. In addition, any national limit imposed under the reserve powers would apply to both borrowing and credit.

Power to invest
The Council has the power to invest, not only for any purpose relevant to its functions but also for the purpose of the prudential management of its financial affairs.

2. Department for Communities and Local Government Investment Guidance (March 2010)

The Local Government Act 2003 requires a local authority "…..to have regard (a) to such guidance as the Secretary of State may issue………….." and the current guidance became operative on 1 April 2010.

The Guidance recommends that for each financial year the Council should prepare at least one investment Strategy to be approved before the start of the year. The Strategy must cover:

- **Investment security**

  Investments should be managed prudently with security and liquidity being considered ahead of yield

  Potential counterparties should be recognised as "specified" and "non-specified" with investment limits being defined to reflect the status of each counterparty

- **Investment risk**

  Procedures should be established for monitoring, assessing and mitigating the risk of loss of invested sums and for ensuring that such sums are readily accessible for expenditure whenever needed.

  The use of credit ratings and other risk assessment processes should be explained

  The use of external advisers should be monitored

  The training requirements for treasury management staff should be reviewed and addressed

  Specific policies should be stated as regards borrowing money in advance of need

- **Investment Liquidity**

  The Strategy should set out procedures for determining the maximum periods for which funds may prudently be committed

The Strategy should be approved by the full Council and made available to the public free of charge. Subject to full Council approval, or approved delegations, the Strategy can be revised during the year.

3. Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (CIPFA 2017)

The primary requirements of the Code are:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

- Creation and maintenance of Treasury Management Practices ("TMPs") that set out the manner in which the Council will seek to achieve those policies and objectives.

- Receipt by the full Council or Cabinet of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Half-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.

- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body.

4. The Prudential Code for Capital Finance in Local Authorities (CIPFA 2011) – Guidance 2017

Compliance with the objectives of the Code by the Council should ensure that:

- Capital expenditure plans are affordable in terms of their implications on Council Tax and housing rents
- External borrowing and other long term liabilities are within prudent and sustainable levels
- Treasury management decisions are taken in accordance with good professional practice

As part of the two codes of practice above the Council is required to:

- agree a series of prudential indicators against which performance is measured
- produce Treasury Management Practice Notes for officers which set out how treasury management policies and objectives are to be achieved and activities controlled.

APPENDIX B

TREASURY MANAGEMENT DELEGATIONS AND RESPONSIBILITIES

The respective roles of the Council, Cabinet, GARMSC, the Section 151 officer, the Treasury Management Group the Treasury and Pensions Manager and the Treasury Team are summarised below. Further details are set out in the Treasury Management Practices.

Council

Under the Constitution, the Council is responsible for “decisions relating to the control of the Council’s borrowing requirement.”

It agrees the annual Treasury Management Strategy Statement including Prudential Indicators, Minimum Revenue Provision Policy Statement and Annual Investment Strategy.

Cabinet

Under the Constitution, the Cabinet “will exercise all of the local authority functions which are not the responsibility of any other part of the local authority, whether by law or under this Constitution.”

It considers and recommends to Council the annual Treasury Management Strategy Statement and receives a mid-year report and annual outturn report on Treasury Management activities.

Governance, Audit, Risk Management and Standards Committee

GARMSC reviews the Treasury Management Strategy and monitors progress on treasury management in accordance with CIPFA codes of practice.

Director of Finance (Section 151 Officer)

Under S151 of the Local Government Act 1972 the Council “shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs.” At Harrow, this responsibility is exercised by the Director of Finance.

The Director is responsibility for implementing the policies agreed by the Council and Cabinet.

Under the Local Government Finance Act 1988 and the Local Government Act 2003 the Director also has responsibilities in respect of budget arrangements and the adequacy of resources. In terms of Treasury Management this means that the financing costs of the Capital Programme are built into the Revenue Budget as are any assumptions on investment income.

The Director chairs the Treasury Management Group and agrees major treasury management decisions, specifically including any borrowing decisions, delegated to officers.

Treasury Management Group

Comprises Director of Finance, Head of Strategic and Technical Finance (Deputy S151 Officer), Treasury and Pensions Manager, Senior Finance Officer and is responsible for:

- Monitoring treasury management activity against approved strategy, policy, practices and market conditions;
- Ensuring that capital expenditure plans are continually reviewed in line with budget assumptions throughout the year to forecast when borrowing will be required.
- Approving changes to treasury management practices and procedures;
- Reviewing the performance of the treasury management function using benchmarking data on borrowing and investment provided by the Treasury Management Adviser (Link Asset Services Asset Services);
- Monitoring the performance of the appointed Treasury Management Adviser and recommending any necessary actions
- Ensuring the adequacy of treasury management resources and skills and the effective division of responsibilities within the treasury management function;
- Monitoring the adequacy of internal audit reviews and the implementation of audit recommendations

Treasury and Pensions Manager

Responsible for the execution and administration of treasury management decisions, acting in accordance with the Council's Treasury Management Strategy Statement and CIPFA's "Standard of Professional Practice on Treasury Management"

Treasury Team

Headed by Senior Finance Officer with responsibility for day-to-day treasury and investment and borrowing activity in accordance with approved Strategy, policy, practices and procedures and for recommending changes to the Treasury Management Group

APPENDIX C

Minimum Revenue Provision (MRP) Policy Statement

- For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be the equal annual reduction of 2% of the outstanding debt at 1 April 2015 for the subsequent 50 years.

- For all capital expenditure financed from unsupported (prudential) borrowing (including PFI and finance leases), MRP will be based upon an asset life method in accordance with Option 3 of the guidance.

- In some cases where a scheme is financed by prudential borrowing it may be appropriate to vary the profile of the MRP charge to reflect the future income streams associated with the asset, whilst retaining the principle that the full amount of borrowing will be charged as MRP over the asset's estimated useful life.

- A voluntary MRP may be made from either revenue or voluntarily set aside capital receipts.

- Estimated life periods and amortisation methodologies will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

- Freehold land cannot properly have a life attributed to it, so for the purposes of Asset Life method it will be treated as equal to a maximum of 50 years. But if there is a structure on the land which the authority considers to have a life longer than 50 years, that same life estimate will be used for the land.

- As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

- Repayments included in annual PFI or finance leases are applied as MRP.

- Where borrowing is undertaken for the construction of new assets, MRP will only become chargeable once such assets are completed and operational.

- Under Treasury Management best practice the Council may decide to defer borrowing up to the capital financing requirement (CFR) and use internal resources instead. Where internal borrowing has been used, the amount chargeable as MRP may be adjusted to reflect the deferral of actual borrowing.

Provided by Link Asset Services Asset Services at November 2017

Interest Rate Forecasts 2017 - 2021

The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives our central view.

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB Rate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB View	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB View	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. The Link Asset Services forecast as above includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected, that at some point, there would be a more protracted move from bonds to equities after a historic long-term trend, over about the last 25 years, of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial Quantitative Easing, added further impetus to this downward trend in bond yields and rising bond prices. Quantitative Easing has also directly led to a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election in November 2016 has called into question whether the previous trend may go into reverse, especially now the Fed. has taken the lead in reversing monetary policy by starting, in October 2017, a policy of not fully reinvesting proceeds from bonds that it holds when they mature.

Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as stronger economic growth becomes more firmly established. The Fed. has started raising interest rates and this trend is expected to continue during 2018 and 2019. These increases will make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US are likely to exert some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure is likely to be dampened by how strong or weak the prospects for economic growth and rising inflation are in each country, and on the degree of progress towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

From time to time, gilt yields – and therefore PWLB rates - can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments. Such volatility could occur at any time during the forecast period.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts (and MPC decisions) will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

The overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- The Bank of England takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.
- Weak capitalisation of some European banks.
- Germany is still without an effective government after the inconclusive result of the general election in October. In addition, Italy is to hold a general election on 4 March and the anti EU populist Five Star party is currently in the lead in the polls, although it is unlikely to get a working majority on its own. Both situations could pose major challenges to the overall leadership and direction of the EU as a whole and of the individual respective countries. Hungary will hold a general election in April 2018.
- The result of the October 2017 Austrian general election has now resulted in a strongly anti-immigrant coalition government. In addition, the Czech ANO party became the largest party in the October 2017 general election on a platform of being strongly against EU migrant quotas and refugee policies. Both developments could provide major impetus to other, particularly former Communist bloc countries, to coalesce to create a major block to progress on EU integration and centralisation of EU policy. This, in turn, could spill over into impacting the Euro, EU financial policy and financial markets.
- Rising protectionism under President Trump
- A sharp Chinese downturn and its impact on emerging market countries

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of Quantitative Easing, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.

Investment and borrowing rates

- Investment returns are likely to remain low during 2018/19 but to be on a gently rising trend over the next few years.
- Borrowing interest rates increased sharply after the result of the general election in June and then also after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate increases. Since then, borrowing rates have eased back again somewhat. Apart from that, there has been little general trend in rates during the current financial year. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;
- There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

APPENDIX E

Provided by Link Asset Services Asset Services at 20 November 2017

ECONOMIC BACKGROUND

GLOBAL OUTLOOK. World growth looks to be on an encouraging trend of stronger performance, rising earnings and falling levels of unemployment. In October, the IMF upgraded its forecast for world growth from 3.2% to 3.6% for 2017 and 3.7% for 2018.

In addition, **inflation prospects are generally muted** and it is particularly notable that **wage inflation** has been subdued despite unemployment falling to historically very low levels in the UK and US. This has led to many comments by economists that there appears to have been a fundamental shift downwards in the Phillips curve (this plots the correlation between levels of unemployment and inflation e.g. if the former is low the latter tends to be high). In turn, this raises the question of what has caused this? The likely answers probably lay in a combination of a shift towards flexible working, self-employment, falling union membership and a consequent reduction in union power and influence in the economy, and increasing globalisation and specialisation of individual countries, which has meant that labour in one country is in competition with labour in other countries which may be offering lower wage rates, increased productivity or a combination of the two. In addition, technology is probably also exerting downward pressure on wage rates and this is likely to grow with an accelerating movement towards automation, robots and artificial intelligence, leading to many repetitive tasks being taken over by machines or computers. Indeed, this is now being labelled as being the start of the **fourth industrial revolution.**

KEY RISKS - central bank monetary policy measures
Looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as Quantitative Easing (QE), where central banks bought large amounts of central government debt and smaller sums of other debt.

The key issue now is that that period of stimulating economic recovery and warding off the threat of deflation is coming towards its close and a new period has already started in the US, and more recently in the UK, on reversing those measures i.e. by raising central rates and (for the US) reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of an on-going reduction in spare capacity in the economy, and of unemployment falling to such low levels that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this then also encouraged investors into a search for yield and into investing in riskier assets such as equities. This resulted in bond markets and equity market prices both rising to historically high valuation levels simultaneously. This, therefore, makes both asset categories vulnerable to a sharp correction. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to neither squash economic recovery by taking too rapid and too strong action, or, alternatively, let inflation run away by taking action that was too slow and/or too weak. **The potential for central banks to get this timing and strength of action wrong are now key risks.**

There is also a potential key question over whether economic growth has become too dependent on strong central bank stimulus and whether it will maintain its momentum against a backdrop of rising interest rates and the reversal of QE. In the UK, a key vulnerability is the **low level of productivity growth**, which may be the main driver for increases in wages; and **decreasing consumer disposable income,** which is important in the context of consumer expenditure primarily underpinning UK GDP growth.

A further question that has come to the fore is whether **an inflation target for central banks of 2%**, is now realistic given the shift down in inflation pressures from internally generated inflation, (i.e. wage inflation feeding through into the national economy), given the above mentioned shift down in the Phillips curve.

- Some economists favour a shift to a **lower inflation target of 1%** to emphasise the need to keep the lid on inflation. Alternatively, it is possible that a central bank could simply 'look through' tepid wage inflation, (i.e. ignore the overall 2% inflation target), in order to take action in raising rates sooner than might otherwise be expected.
- However, other economists would argue for a **shift *UP* in the inflation target to 3%** in order to ensure that central banks place the emphasis on maintaining economic growth through adopting a slower pace of withdrawal of stimulus.
- In addition, there is a strong argument that central banks should **target financial market stability**. As mentioned previously, bond markets and equity markets could be vulnerable to a sharp correction. There has been much commentary, that since 2008, QE has caused massive distortions, imbalances and bubbles in asset prices, both financial and non-financial. Consequently, there are widespread concerns at the potential for such bubbles to be burst by exuberant central bank action. On the other hand, too slow or weak action would allow these imbalances and distortions to continue or to even inflate them further.
- Consumer debt levels are also at historically high levels due to the prolonged period of low cost of borrowing since the financial crash. In turn, this cheap borrowing has meant that **other non-financial asset prices**, particularly house prices, have been driven up to very high levels, especially compared to income levels. Any sharp downturn in the availability of credit, or increase in the cost of credit, could potentially destabilise the housing market and generate a sharp downturn in house prices. This could then have a destabilising effect on consumer confidence, consumer expenditure and GDP growth. However, no central bank would accept that it ought to have responsibility for specifically targeting house prices.

UK. After the UK surprised on the upside with strong economic growth in 2016, **growth in 2017 has been disappointingly weak**; quarter 1 came in at only +0.3% (+1.8% y/y), quarter 2 was +0.3% (+1.5% y/y) and quarter 3 was +0.4% (+1.5% y/y). The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the EU referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 80% of GDP, has seen weak growth as consumers cut back on their expenditure. However, more recently there have been encouraging statistics from the **manufacturing sector** which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year while robust world growth has also been supportive. However, this sector only accounts for around 10% of GDP so expansion in this sector will have a much more muted effect on the overall GDP growth figure for the UK economy as a whole.

While the Bank of England is expected to give forward guidance to prepare financial markets for gradual changes in policy, the **Monetary Policy Committee, (MPC), meeting of 14 September 2017** managed to shock financial markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise soon. The Bank of England Inflation Reports during 2017 have clearly flagged up that it expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years' time. The Bank revised its forecast for the peak to just over 3% at the 14 September meeting. (Inflation actually came in at 3.1% in November so that may prove now to be the peak.) This marginal revision in the Bank's forecast can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment having already fallen to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that **the amount of spare capacity in the economy was significantly diminishing** towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of automation and globalisation. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a *decrease* in such globalisation pressures in the UK, and so this would cause additional inflationary pressure over the next few years.

At Its 2 November meeting, the MPC duly delivered a 0.25% increase in Bank Rate. It also gave forward guidance that they expected to increase Bank Rate only twice more in the next three years to reach 1.0% by 2020. This is, therefore, not quite the 'one and done' scenario but is, nevertheless, a very relaxed rate of increase prediction in Bank Rate in line with previous statements that Bank Rate would only go up very gradually and to a limited extent.

However, some forecasters are flagging up that they expect growth to accelerate significantly towards the end of 2017 and then into 2018. This view is based primarily on the coming fall in inflation, (as the effect of the effective devaluation of sterling after the EU referendum drops out of the CPI statistics), which will bring to an end the negative impact on consumer spending power. In addition, a strong export performance will compensate for weak services sector growth. If this scenario was indeed to materialise, then the MPC would be likely to accelerate its pace of increases in Bank Rate during 2018 and onwards.

It is also worth noting the **contradiction within the Bank of England** between action in 2016 and in 2017 **by two of its committees**. After the shock result of the EU referendum, the **Monetary Policy Committee (MPC)** voted in August 2016 for emergency action to cut Bank Rate from 0.50% to 0.25%, restarting £70bn of QE purchases, and also providing UK banks with £100bn of cheap financing. The aim of this was to lower borrowing costs, stimulate demand for borrowing and thereby increase expenditure and demand in the economy. The MPC felt this was necessary in order to ward off their expectation that there would be a sharp slowdown in economic growth. Instead, the economy grew robustly, although the Governor of the Bank of England strongly maintained that this was *because* the MPC took that action. However, other commentators regard this emergency action by the MPC as being proven by events to be a mistake. Then in 2017, we had the **Financial Policy Committee (FPC)** of the Bank of England taking action in June and September over its concerns that cheap borrowing rates, and easy availability of consumer credit, had resulted in too rapid a rate of growth in consumer borrowing and in the size of total borrowing, especially of unsecured borrowing. It, therefore, took punitive action to clamp down on the ability of the main banks to extend such credit! Indeed, a PWC report in October 2017 warned that credit card, car and personal loans and student debt will hit the equivalent of an average of £12,500 per household by 2020. However, averages belie wide variations in levels of debt with much higher exposure being biased towards younger people, especially the 25 -34 year old band, reflecting their lower levels of real income and asset ownership.

One key area of risk is that consumers may have become used to cheap rates since 2008 for borrowing, especially for mortgages. It is a major concern that **some consumers may have over extended their borrowing** and have become complacent about interest rates going up after Bank Rate had been unchanged at 0.50% since March 2009 until falling further to 0.25% in August 2016. This is why forward guidance from the Bank of England continues to emphasise slow and gradual increases in Bank Rate in the coming years. However, consumer borrowing is a particularly vulnerable area in terms of the Monetary Policy Committee getting the pace and strength of Bank Rate increases right - without causing a sudden shock to consumer demand, confidence and thereby to the pace of economic growth.

Moreover, while there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two to three years will actually pan out.

EZ. Economic growth in the eurozone (EZ), (the UK's biggest trading partner), had been lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of QE. However, growth picked up in 2016 and has now gathered substantial strength and momentum thanks to this stimulus. GDP growth was 0.6% in quarter 1 (2.1% y/y), 0.7% in quarter 2 (2.4% y/y) and +0.6% in quarter 3 (2.6% y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in November inflation was 1.5%. It is therefore unlikely to start on an upswing in rates until possibly 2019. It has, however, announced that it will slow down its monthly QE purchases of debt from €60bn to €30bn from January 2018 and continue to at least September 2018.

USA. Growth in the American economy was notably erratic and volatile in 2015 and 2016. 2017 is following that path again with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1% and quarter 3 coming in at 3.2%. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.1%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on a gradual upswing in rates with four increases in all and four increases since December 2016; the latest rise was in December 2017 and lifted the central rate to 1.25 – 1.50%. There could then be another four increases in 2018. At its September meeting, the Fed said it would start in October to gradually unwind its $4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

JAPAN. GDP growth has been gradually improving during 2017 to reach an annual figure of 2.1% in quarter 3. However, it is still struggling to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

Brexit timetable and process

- March 2017: UK government notifies the European Council of its intention to leave under the Treaty on European Union Article 50
- March 2019: initial two-year negotiation period on the terms of exit. In her Florence speech in September 2017, the Prime Minister proposed a two year transitional period after March 2019.
- UK continues as a full EU member until March 2019 with access to the single market and tariff free trade between the EU and UK. Different sectors of the UK economy will leave the single market and tariff free trade at different times during the two year transitional period.
- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.
- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK could also exit without any such agreements in the event of a breakdown of negotiations.
- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.
- On full exit from the EU: the UK parliament would repeal the 1972 European Communities Act.
- The UK will then no longer participate in matters reserved for EU members, such as changes to the EU's budget, voting allocations and policies.

Counterparties

Specified Investments

These are sterling investments of a maturity period of not more than 365 days, or those which could be for a longer period but where the lender has the right to be repaid within 365 days if it wishes. These are low risk assets where the possibility of loss of principal or investment income is negligible. The instruments and credit criteria to be used are set out in the table below.

Table 10 Specified Investments

Instrument	Minimum Credit Criteria	Use
Debt Management Agency Deposit Facility	Government backed	In-house
Term deposits – other LAs	Local Authority issue	In-house
Term deposits – banks and building societies	AA- Long Term F1+Short-term 2 Support UK or AAA Sovereign	In-house
Money Market Funds (CNAV), (LVNAV) and (VNAV)	AAA	In-house

Non-Specified Investments

Non-specified investments are any other type of investment (i.e. not defined as Specified above).They normally offer the prospect of higher returns but carry a higher risk. The identification and rationale supporting the selection of these other investments are set out in the table below.

Table 11 Non - Specified Investments

	Minimum Credit Criteria	Use	Max total investment	Max. maturity period
Term deposits – banks and building societies (excluding Lloyds / HBOS)	A Long Term F1 Short-term UK or AAA Sovereign	In-house	50%	3 months
Lloyds / HBOS	A Long Term F1 Short-term	In-house	50%	6 months
Callable Deposits	A Long Term F1 Short term	In-house	20%	3 months
UK nationalised Banks [RBS]	F2 Short-term	In-house	60%	36 months
Enhanced Cash Funds	AAA	In-house	25% (maximum £10 million per fund)	Minimum monthly redemption
Corporate bonds pooled funds, other non-standard investments and gilts		In house	£10m in total	Dependent on specific agreement
HB Public Law Ltd		In house	£0.1m	36 months
Investment Property Strategy *		In house	£20.0m	Dependent on specific agreement

	Minimum Credit Criteria	Use	Max total investment	Max. maturity period
Concilium Business Services Ltd t/a Smart Lettings Ltd		In house	£0.331m	36 months
Concilium Group Startup capital		In house	£0.702m	60 months
Concilium Group 5% Long Term Investment		In house	£1.5m	Dependent on specific agreement
Cultura London re Harrow Arts Centre		In house	£1m	25 years
Housing Development Vehicle (LLP) – Initially on acquisition of 100 homes		In house	£30m	Dependent on specific agreement

*Investment to date totals £10.2m

Affordability Prudential Indicators

1 Ratio of Financing Costs to Revenue Stream

This indicator identifies the trend in the cost of capital (borrowing, depreciation, impairment and other long term obligation costs net of investment income) against the net revenue stream. Tables 12 and 13 below show the current position for the General Fund and HRA respectively.

Table 12 Ratio of Financing Costs to Revenue Stream – General Fund (excluding Regeneration)

	2016/17	2017/18	2018/19	2019/20	2020/21
	Actual	Estimate	Estimate	Estimate	Estimate
Net revenue stream (£'000)	164,987	164,804	167,913	163,003	165,471
Interest costs (£'000)	7,817	7,268	8,428	9,247	9,994
Interest costs - finance leases (£'000)	1,717	1,700	1,700	1,700	1,700
Interest and investment income (£'000)	-1,525	-1,300	-1,300	-1,300	-1,300
MRP (£'000)	15,477	14,218	18,925	21,321	25,704
Total financing costs (£'000)	23,486	21,886	27,753	30,968	36,098
Ratio of total financing costs against net revenue stream (%)	14.2	13.3	16.5	19.0	21.8

The ratio of total financing costs against net revenue stream increases significantly between 2017-18 and 2020-21 due to the impact of the capital programme and the increase in MRP.

Table 13 Ratio of Financing Costs to Revenue Stream – HRA

	2016/17	2017/18	2018/19	2019/20	2020/21
	Actual	Estimate, Qtr 3	Estimate	Estimate	Estimate
Gross revenue stream (£'000)	32,280	32,001	32,112	32,587	33,174
Interest costs of self-funding borrowing (£'000)	3,751	3,751	3,751	3,751	3,751
Interest costs of other borrowing (£'000)	2,643	2,797	2,574	2,642	2,675
`	35	-2	0	0	0
Depreciation (£'000)	7,559	7,496	7,676	7,748	7,812
Impairment (£'000)	0	0	0	0	0
Total financing costs (£'000)	13,988	14,042	14,001	14,141	14,238
Ratio of total financing costs against net revenue stream (%)	43.3	43.9	43.6	43.4	42.9
Ratio of total financing costs (excluding depreciation and impairment) against net revenue stream (%)	19.9	20.5	19.7	19.6	19.4

The ratio of total financing costs (excluding depreciation and impairment) against net revenue stream shows a gradual increase due largely to the mandatory reduction in dwelling rent and the reduction of interest income due to reducing balances on the revenue account and Major Repairs reserve.

2 Incremental Impact of Capital Investment Decisions on Council Tax and Housing Rents

This indicator identifies the revenue costs associated with proposed capital programme and the impact on Council Tax and Housing Rents.

Table 14 Incremental Impact of Capital Investment Decisions (excluding Regeneration) – Council Tax

	2016/17	2017/18	2018/19	2019/20	2020/21
	Actual	Estimate	Estimate	Estimate	Estimate
Net Financing need (£'000)	45,131	46,131	40,607	6,790	- 33,786
Borrowing @ 25-50years PWLB rate (£'000)	1,146	1,241	1,233	216	- 1,077
MRP @ 2% (£'000)	903	923	812	136	-676
Total increased costs (£'000)	**2,049**	**2,164**	**2,046**	**352**	**- 1,753**
Ctax base (£'000)	82,000	83,500	84,466	85,946	85,946
% Increase	2.5	2.6	2.4	0.4	- 2.0
Band D Council Tax	1,560	1,628	1,689	1,738	1,766
Overall increase £ pa	**38.98**	**42.17**	**40.90**	**7.12**	**- 36.02**

Table 15 Incremental Impact of Capital Investment Decisions – Housing Rents

	2016/17	2017/18	2018/19	2019/20	2020/21
	Actual	Estimate, Qtr 3	Estimate	Estimate	Estimate
Net Financing need (£'000)					
Borrowing @ 2% (25-50years PWLB rate) (£'000)					
Depreciation @ 2% (£'000)					
Total increased costs					
Number of dwellings					
Increase in average housing rent per week £	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

3 Local HRA indicators

The Council should also be aware of the following ratios when making its treasury management decisions.

Table 16 HRA Ratios

	2016/17	2017/18	2018/19	2019/20	2020/21
	Actual	Estimate, Qtr 3	Estimate	Estimate	Estimate
Debt (CFR) (£m)	149.54	151.49	154.67	154.78	156.27
Gross Revenue Stream (£m)	32.28	32.00	32.11	32.59	33.17
Ratio of Gross Revenue Stream to Debt (%)	**22**	**21**	**21**	**21**	**21**
Average Number of Dwellings	4,825	4,823	4,781	4,760	4,755
Debt outstanding per dwelling (£)	**30,992**	**31,410**	**32,351**	**32,517**	**32,864**

Rents in the Housing Revenue Account are projected to reduce by 1% each year for four years commencing in 2016/17, in line with the provisions of the Welfare Reform and Work Act. The reduction in income is expected to be mitigated over the next two years by additional rent income generated as a result of an increase in HRA property numbers from the Council's HRA new build and purchase and repair programmes.