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Contact Officer:

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Assistant (Intern) Tel: 01483 444058

8 June 2016

Dear Councillor

Your attendance is requested at a meeting of the **CORPORATE GOVERNANCE AND STANDARDS COMMITTEE** to be held in the Council Chamber, Millmead House, Millmead House, Millmead, Guildford, Surrey GU2 4BB on **THURSDAY, 16 JUNE 2016 at 7.00 pm.**

Yours faithfully

Satish Mistry  
Director of Corporate Services

**MEMBERS OF THE COMMITTEE**

Chairman: The Deputy Mayor, Councillor Nigel Manning  
Vice-Chairman: Councillor Jo Randall

Councillor Philip Brooker  
Councillor Alexandra Chesterfield  
Councillor Colin Cross  
Councillor Geoff Davis  
Councillor Mike Hurdle

Ms Geraldine Reffo^  
Mr Charles Hope^  
Mrs Maria Angel+  
Mr Ian Symes^

+Independent member

^ Parish member

**Authorised Substitute Members:**

Councillor Richard Billington  
Councillor David Goodwin  
Councillor Liz Hogger  
Councillor Nigel Kears

Councillor Susan Parker  
Councillor David Reeve  
Councillor Caroline Reeves  
Councillor Nikki Nelson-Smith

**OFFICER REPRESENTATION:**

Sue Sturgeon (Manager Director: Head of Paid Service and S151 Officer),  
Satish Mistry (Director of Corporate Services and Monitoring Officer),  
Joan Poole (Head of Internal Audit) and  
Claire Morris (Head of Financial Services and Deputy S151 Officer)

**QUORUM 3**



## THE COUNCIL'S STRATEGIC FRAMEWORK

### Vision – for the borough

For Guildford to be a town and rural borough that is the most desirable place to live, work and visit in South East England. A centre for education, healthcare, innovative cutting-edge businesses, high quality retail and wellbeing. A county town set in a vibrant rural environment, which balances the needs of urban and rural communities alike. Known for our outstanding urban planning and design, and with infrastructure that will properly cope with our needs.

### Five fundamental themes that support the achievement of our vision:

- **Our Borough** - ensuring that proportional and managed growth for future generations meets our community and economic needs
- **Our Economy** - improving prosperity for all by enabling a dynamic, productive and sustainable economy that provides jobs and homes for local people
- **Our Infrastructure** - working with partners to deliver the massive improvements needed in the next 20 years, including tackling congestion issues
- **Our Environment** - improving sustainability and protecting our countryside, balancing this with the needs of the rural and wider economy
- **Our Society** - believing that every person matters and concentrating on the needs of the less advantaged

**Your Council** – working to ensure a sustainable financial future to deliver improved and innovative services

### Values for our residents

- We will strive to be the best Council.
- We will deliver quality and value for money services.
- We will help the vulnerable members of our community.
- We will be open and accountable.
- We will deliver improvements and enable change across the borough.

### Mission – for the Council

A forward looking, efficiently run Council, working in partnership with others and providing first class services that give our society value for money, now and for the future.

## AGENDA

### ITEM

**1 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS**

**2 LOCAL CODE OF CONDUCT - DISCLOSURE OF INTERESTS**

In accordance with the revised local Code of Conduct, a councillor is required to disclose at the meeting any disclosable pecuniary interest (DPI) that they may have in respect of any matter for consideration on this agenda. Any councillor with a DPI must not participate in any discussion or vote regarding that matter and they must also withdraw from the meeting immediately before consideration of the matter.

If that DPI has not been registered, you must notify the Monitoring Officer of the details of the DPI within 28 days of the date of the meeting.

**3 MINUTES (Pages 1 - 4)**

To confirm the minutes of the meeting of the Corporate Governance and Standards Committee held on 31 March 2016 (attached).

**4 INTERNAL AUDIT PLAN 2016-17 (Pages 5 - 26)**

**5 ANNUAL GOVERNANCE STATEMENT 2015-16 (Pages 27 - 48)**

**6 TREASURY MANAGEMENT ANNUAL REPORT 2015-16 (Pages 49 - 104)**

**7 ANNUAL REPORT ON GUILDFORD BOROUGH COUNCIL'S COMPLIANCE WITH INFORMATION RIGHTS LEGISLATION IN 2015 (Pages 105 - 118)**

**8 EXTERNAL AUDIT 2016-17 FEE LETTER AND THE FUTURE OF LOCAL GOVERNMENT EXTERNAL AUDIT (Pages 119 - 126)**

**9 WORK PROGRAMME (Pages 127 - 134)**

### **Meeting dates for 2016-17**

- Thursday 28 July 2016
- Thursday 22 September 2016
- Thursday 24 November 2016
- Thursday 12 January 2017
- Thursday 30 March 2017

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## CORPORATE GOVERNANCE AND STANDARDS COMMITTEE

- \* Councillor Gordon Jackson (Chairman)
- \* Councillor Jo Randall (Vice-Chairman)

- |                              |                   |
|------------------------------|-------------------|
| * Councillor Philip Brooker  | * Mrs Maria Angel |
| * Councillor Colin Cross     | Mr Charles Hope   |
| * Councillor David Elms      | * Ms Gerry Reffo  |
| * Councillor Mike Hurdle     | Mr Ian Symes      |
| * Councillor Jennifer Jordan |                   |

\*Present

### **CGS51 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS**

Apologies for absence were received from Mr Charles Hope and Mr Ian Symes.

### **CGS54 LOCAL CODE OF CONDUCT - DISCLOSURE OF INTERESTS**

There were no disclosures of interest.

### **CGS55 MINUTES**

The Committee confirmed the minutes of the meeting held on 14 January 2016. The Chairman signed the minutes.

### **CGS56 REVIEW OF ARRANGEMENTS FOR INVESTIGATING ALLEGATIONS OF BREACHES OF THE COUNCILLORS' CODE OF CONDUCT**

The Committee considered the report on the Working Group's consideration of the Review of Guildford Borough Council's Procedures for handling complaints that members may have breached the Code of Conduct.

The Chairman, Councillor Gordon Jackson thanked the members of the Working Group and the officers involved for their time and noted that it had been a very positive and useful exercise, with unanimous agreement on all of the items of the report.

The Committee,

RESOLVED to recommend to Full Council

1. That the report be agreed and implemented
2. That the Hearings Sub-Committee should not be politically proportional; but rather the aim should be for political diversity
3. To note that further work is required in the following areas and that the Committee (acting through the Working Group) be authorised to carry out, finalise and implement such work:
  - a) A revision of the Protocol for Independent Persons adopted by Full Council on 7 October 2015 and an associated briefing document.
  - b) Guidelines and policy for communications; together with guides for the complainant and member-complained-of.
  - c) Assistance as regards any statements relating to standards and the private capacity of members.
  - d) A protocol with the Police where a complainant alleges criminal behaviour.

- e) The redrafting of the Council's arrangements for dealing with allegations that a member has failed to comply with its code of conduct ("the Arrangements") to incorporate the Report and the work described in the preceding paragraphs
- f) That such redrafting might usefully include a separate version of the Arrangements containing only those elements relevant to allegations of misconduct by parish councillors.

Reason for decision: To comply with the former Leader's request for a review and to ensure that the Council's arrangements remain fit for purpose and in accordance with best practice.

### **CGS57 PETITION SCHEME - DEALING WITH E-PETITIONS**

The Committee considered a report detailing options for further amendments to the Council's Petition Scheme, to clarify the process for dealing with e-petitions not hosted on the Council's website.

Questions from the Committee raised the following points and information.

- The Committee was informed that the Council's e-petitions facility would only allow those with valid postcodes in the borough to sign an e-petition. It was very simple for a member of the public to submit a petition using the Council's facility.
- When a petition was submitted to the Council using change.org, officers were required to go through each signature individually, checking that the postcode provided is located within the borough. This took a significant amount of time.
- The Council's e-petition facility would allow the Council to keep in contact with each person who had signed the e-petition. If an e-petition was referred for debate at a Full Council meeting then those who signed it could be informed of when this debate would take place and updated on the outcome of the debate.
- Requirements for submitting a valid petition and restrictions on the types of petition that may be submitted were set out in the Council's petition scheme.
- The Committee heard that members of the public would be able to promote a petition that was live on the Council's website using social media. In the past, petitions on the Council's website had easily reached the target of 500 signatories, which triggered a debate at a meeting of Full Council.

The Committee,

RESOLVED to recommend to Council that the petition scheme be amended to make it explicitly clear that the Council will not accept e-petitions hosted by third parties (for example, change.org), or accept as paper petitions information about e-signatories downloaded from third party e-petition hosts.

Reason for decision: To ensure that the Council's processes for responding to petitions and e-petitions remain robust and fit for purpose.

### **CGS58 AUDIT REPORT ON THE CERTIFICATION OF FINANCIAL CLAIMS AND RETURNS 2014-15: HOUSING BENEFIT SUBSIDY AND POOLING HOUSING CAPITAL RECEIPTS**

The Committee considered an audit report on the certification of financial claims and returns for 2014-15.

The Benefits Manager gave a presentation summarising how housing benefit subsidy works, the causes and prevention of errors and future subsidy audits.

Questions from the Committee raised the following points and information:

- The software contained a number of checks to help reduce errors, however there was a limit to what these checks could achieve. The Committee was informed that the external auditors had examined this issue and would provide guidance on which checks should be used.
- The external auditors were reassured that, following discussions with officers, positive processes had been put in place to address the errors that had been found. The auditors' recommendations within the report had all been implemented in full.
- The Committee heard that as a result of the qualification of the Housing Benefit Subsidy claim, the auditors had undertaken additional checking and this had resulted in a fee of £16,000.

The Committee,

RESOLVED

- 1) To note the position regarding the certification of claims and returns for 2014-15, and
- 2) To approve the additional audit fee of £16,000 claimed by Grant Thornton.

Reason for decision: To formally sign off the claims and returns for 2014-15.

#### **CGS59 FINANCIAL MONITORING 2015-16 PERIOD 10**

The Committee considered a report that summarised the financial monitoring position for period 10 (April 2015 – January 2016).

The Committee heard that the government had made adjustments to the inclusion of certain rate reliefs in the calculation for the amount of growth above the business rates baseline. This had caused the corresponding increase in the levy.

The Committee,

RESOLVED to note the results of the Council's financial monitoring for the period April 2015 to January 2016.

Reason for Decision: To allow the Committee to undertake its role in relation to scrutinising the Council's finances.

#### **CGS60 EXTERNAL AUDIT PLAN AND AUDIT UPDATE 2015-16**

The Committee considered the annual audit plan for 2015-16 and the Audit Update, both prepared by the Council's external auditors, Grant Thornton.

The Committee heard that officers were not expecting a large impact on the surplus assets as a result of the new accounting standard on fair value. The valuation report had not yet been received.

The Committee,

RESOLVED ,

1. To approve the external audit plan submitted by Grant Thornton and the fee set out on page 22, Appendix 1 of the report
2. To note the content of the External Auditor's update report.

Reason for Decision: To enable the Committee to consider and comment on the planned audit fee, work programme and update report.

**CGS61 ENQUIRIES OF THOSE CHARGED WITH GOVERNANCE**

The Committee considered a report by the external auditors, Grant Thornton, on their discussions with those charged with governance.

The Committee,

RESOLVED to approve the responses to Grant Thornton provided in the Discussions with Those Charged with Governance document at Appendix 1 to the report submitted to the Committee.

Reason for Decision: To enable the Council's external auditors, Grant Thornton, to carry out their duties under the Local Audit and Accountability Act 2014, the auditors must be provided with the necessary assurances required under International Standards on Auditing (ISA), particularly, ISA 260, Communication with Those Charged with Governance.

**CGS62 WORK PROGRAMME**

The Committee considered its work programme covering the 2016-2017 municipal year.

The Committee,

RESOLVED to approve the work programme.

Reason for decision: To allow the Committee to approve its work programme for the 2016-17 municipal year.

The meeting finished at 8.15 pm

Signed .....

Date .....

Chairman



Corporate Governance and Standards Committee Report

Report of Chief Internal Auditor

Author: Joan Poole

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Date: 16 June 2016

## Internal audit plan 2016-17

### **Recommendations**

The Committee is recommended to approve the audit plan for 2016-17 set out in Appendix 1. The Committee is also recommended to note the summary of audit reports for the period October 2015 to March 2016.

#### Reason(s) for Recommendation:

To ensure an adequate level of audit coverage.

### **1. Purpose of Report**

- 1.1 To present the draft audit plan for 2016-17 and the work programme for the first half of the year, which is extracted from the audit plan. This report also presents a calculation of the resources required for the proper audit of Council services.

### **2. Strategic Priorities**

- 2.1 The audit of Council services supports the priority of providing efficient, cost effective and relevant quality public services that give the community value for money.

### **3. Background**

- 3.1 We have based the plan on a risk assessment in line with best practice. We aim to audit the majority of services at least once every three years although we review the major systems annually. We update the risk assessment after each audit.
- 3.2 The planning process is an assessment of the areas of risk and the resources available. The audit plan is a balance between supply and demand and is affected by unplanned events even though there is a contingency budget. The current audit resources are:

In-house resources	2.67 FTE
Senior Auditor (Temp) and Contractor	0.75 FTE
Total resources	3.42 FTE

- 3.3 We have to ensure that the level of audit coverage is sufficient to provide assurance on the overall standard of corporate governance. The planning process includes.
1. identifying the audit universe (all of the areas that require audit attention)
  2. carrying out a risk assessment to identify the level of risk and the appropriate frequency of audit
  3. an estimate of the resources required to carry out the audits
  4. reviewing how we resource the plan
  5. producing the audit plan based on the available resources
- 3.4 The audit plan includes a certain amount of contingency to allow for unplanned work because the actual requirements will vary from year to year. We base the planned figure on records from previous years but it can only ever be an estimate.
- 3.5 Over the last few years, we have augmented in house audit resources by employing a contractor. In 2014-15, we appointed Haines Watts on a two year contract to carry out the fundamental systems work and technical ICT audits. This contract is ending and we are now considering options for the future.
- 3.6 During 2015-16, there were internal resource problems with the long-term sickness absence of a senior member of staff. This was compounded by a period of sickness for another member of staff who was off for most of August and September. This has affected the timing and delivery of some audits and we have used the contractors to cover part of the shortfall and employed an experienced auditor on a temporary, part-time basis to ensure that high risk areas are covered.
- 3.7 As part of the Council's on-going change programme we carried out a fundamental review of the service during 2015-16 to assess whether the current model is the best fit for the Council now and in the future. The review looked at:
- 1) Outsourcing the service to an external provider
  - 2) A shared audit service with one or more authorities
  - 3) Bringing the service in-house
  - 4) Keeping the status quo

- 3.8 We considered and costed all of the options and while there was some interest in a shared service with neighbouring authorities the timing was not right to go into a joint contract. This is still an option for the future. The review found that the current co-sourcing model provided the most effective and economic solution. It provides in-house experienced staff together with the flexibility of using a contractor. However, we will continue to assess the best service model to meet the future requirements of the Council.
- 3.9 We have also reviewed the structure against the future needs of the Council to ensure that we have the right mix of resources to deliver the Council's change agenda. We are currently consulting on the creation of a new Audit and Business Improvement Team, which will bring the two disciplines together within the same service unit. This will provide greater flexibility and make best use of experienced professional resources.
- 3.10 The audit plan aims to cover areas that support the Council's strategic priorities, governance issues and financial probity. In addition, we have to reflect the recent changes within the Council. These changes bring both opportunities and challenges for us. Audit skills are relevant to many of the new initiatives across the Council and we have become involved in both lean and fundamental service reviews, which are part of the overall business improvement programme. While this is not traditional audit work it affords an in-depth knowledge of the services that a purely systems audit would not always provide and is therefore an important source of information about the Council. This information feeds into the risk assessments.
- 3.11 There are always increased risks in times of change. Over the last year, there have been significant changes both within the senior management team and service structures. There are also continuing financial pressures on the Council to provide value for money. This means being more efficient and effective and looking for innovative ways of working. The challenge for audit is to help services become leaner and more effective within a controlled environment.
- 3.12 Change and uncertainty does affect staff and increases the risk of system failure, the relaxation or circumvention of the expected controls and fraudulent activity. We need to ensure that the appropriate control measures are in place and applied consistently across all services. We also need to be sure that we have good governance arrangements to ensure that we are operating within both the legal framework and our own protocols and standards.
- 3.13 In general, the overall control framework within the Council is sound with sufficient controls in place to prevent significant loss but it would be wrong to ignore the changes that are taking place and how this affects people and systems. There is no evidence to suggest that there is a systemic problem but it would be wrong not to factor these into the risk assessments.
- 3.14 This is a challenging time for audit. We need to be proactive in helping services move forward, improve and achieve the desired outcomes of the Corporate Plan but we also need to ensure that effective systems of governance and control are in place.

**4. Audit Plan 2016-2017**

- 4.1 The plan is extracted from the audit planning system 2016-17 and shows a resource requirement for 770 days.
- 4.2 The resource calculation takes into account the total available time less time for annual leave, bank holidays, sick leave, training, appraisals and other non-rechargeable work. The figure for non-rechargeable works is based on previous experience (all members of internal audit complete timesheets therefore the estimates are reasonably accurate). We try to keep non-productive time to a minimum and there is a monthly target of 90 per cent productive time for all audit staff.
- 4.3 The full year's plan is set out in Appendix 1. The plan shows the latest risk assessment based on the updated risk assessment. The risk ratings and frequency of audits are shown in the table below:

<b>Risk score</b>	<b>Audit frequency</b>
A	Annual audit
B	Audit every two years
C	Audit every three years
D	Audit every five years

- 4.4 The plan is ambitious and wide ranging. There are many challenges ahead for the Council. We have tried to strike a balance between reviewing the basic financial and management controls, the major governance areas that we must get right, the smaller services and the fundamental systems on which the external auditor bases his opinion.
- 4.5 In addition, the plan includes value for money audits and specific areas where there is an increasing risk of fraud. As part of our remit to identify efficiency, effectiveness and economy, we will be working with managers to help them to deliver different service options. This could include channel shift, automation or different service models with the appropriate level of control.

**5. Progress against the plan 2015-16**

- 5.1 The table below summarises progress against the Audit Plan for 2015-16. Although the majority of the audits have either been completed or are in progress there have been a number of changes that have affected the team and which have had a knock on effect on the work programme.

5.2 In 2015-16 we completed 84 per cent of the audit plan. There were a number of unplanned reviews which accounted for the shortfall. Some audits were completed after the end of the year and on which we have not yet given an opinion. However, in the work carried out so far there is no indication of any material or significant issues arising that would give rise to concern.

5.3 The assurance ratings of the work carried out in the year to 31 March 2016 are shown below:

Assurance Rating on Productive Audit Work	No. of Audits	
Substantial	16	18%
Reasonable	41	47%
Limited	3	3 %
No Assurance	0	0%
No Opinion (one-off projects)	9	10%
In Progress (inc. FSR and Lean reviews)	14	16%
Deferred to 2016-17	4	4%
Total audit coverage	87	

## 6. Summary of Audit Reports October 2015 to March 2016

6.1 The summaries of the audit reports that we have carried out in the period October 2015 to March 2016 are set out below. Internal Audit uses a scale to categorise the findings and audit opinion under five classifications. These are:

- **No Opinion** – Results of one-off investigations or consultancy work ranging from investigations into potential fraud or misappropriation or other projects such as value for money reviews on which no audit opinion is given.
- **No Assurance** – Fundamental control weaknesses that need immediate action. The area reviewed has significant control weaknesses and/or significant problems were found in the course of the audit.
- **Limited Assurance** – Some assurance that the controls are suitably designed and effective but inconsistently applied and action needs to be taken to ensure risks are managed. The area reviewed has some control weaknesses and there is a risk of loss or problems identified in the course of the audit.
- **Reasonable Assurance** - Assurance that the controls are suitably designed consistently applied and effective but we have identified issues that if not addressed, increase the likelihood of risk materialising in this

area. This rating reflects audits where the systems are sound and there are only low level risks.

- **Substantial Assurance** – Assurance that the controls are suitably designed consistently applied and effective. The area reviewed is well controlled and no material problems were found.

The classifications are included in the reports to managers and have been included here to provide the Committee with an overall conclusion on the findings of the audits. The reports are ranked in order of audit opinion.

## **7. NO OPINION**

- 7.1 There has been one investigation in the period relating to a financial irregularity. This has been reported to the police and we are awaiting the outcome of the investigation and therefore it not appropriate to go into further detail but the loss to the Council is not significant.
- 7.2 During 2015-16 we started a major project to map all the income streams across the Council. It is a substantial piece of work involving income of £33m over 600 cost centres.
- 7.3 This is an on-going and wide-ranging piece of work, which will carry on for the next few months. An overall report will be produced at the completion of the review but we will report any significant issues to Committee in the interim. We have discovered some control issues from the work that has already been completed which are covered in greater detail later in the report but in the main the governance on income is sound. The scale of this work has impacted on the plan and as a result, some low risk audits have been deferred or postponed. All the high-risk audits have been completed.

## **8. NO ASSURANCE**

There were no reports with a “No Assurance” opinion in this period.

## **9. LIMITED ASSURANCE**

### **9.1 Taxi Licence Fees**

As part of the fee setting process we carried out a data quality review of taxi-licensing fees. This followed a history of challenges to the fees in previous years. The review included an analysis of the raw data and the formulae upon which the fees were based. The data quality review found that there were some errors in the methodology and a formula error, which resulted in a change for some of the fees. Some were increased and some went down. However, this is an area which is under close scrutiny from the taxi drivers and we need to be confident that the governance and data which supports the fee setting is correct before the fees are agreed. Areas for improvement have been identified and are subject to an action plan but a further data quality checks will be carried out in 2016-17.

### **Audit Opinion – Limited Assurance**

## 9.2 **Income Mapping**

As mentioned above we have started a review of the controls and reconciliation processes on all income streams across the Council. The initial phase of the review concentrated on the governance on our fees and charges. We found that not all fees and charges had been agreed by Council, some were not in the fees and charges register as required by our Constitution and some were being decided by service managers who did not have the delegated authority to make that decision. These anomalies have now been addressed.

- 9.3 The income mapping project also identified an issue with a lease where we have not recovered the utility costs from the leaseholder as is required in the lease agreement since the construction of the building in 1995. This amounts to £75,000. Audit are working with Legal Services and Asset Development to implement new controls to prevent a re-occurrence. We are taking advice on whether we can recover these costs.

### **Audit Opinion – Limited Assurance**

## 10. **REASONABLE ASSURANCE**

### 10.1 **Creditors**

The Payments team consists of the e-Payments Manager; an Assistant Payments Manager; a Senior e-Payments Officer and four Purchasing and Payments Officers. The objectives of the audit were to ensure that:

- Access to CIVICA is restricted to authorised officers and different levels of access are granted in proportion to each user's role. Users are reconciled with leavers reports periodically;
- Orders and payments are authorised in accordance with an authorised signatories list and the signatories' delegated limits;
- Goods and services are receipted and the invoice is matched to the order before payment is made;
- Payments are supported by a valid VAT invoice (or equivalent), are appropriate purchases and correctly coded to a cost centre with a budget provision;
- There is an adequate segregation of duties in the ordering, receiving and payment of goods and services;
- The accuracy and appropriateness of invoices is checked before payment is processed;
- BACS runs are reconciled to the creditors system (number and value) and there is a restriction on the maximum value of payments allowed by BACS;
- Exception reports are independently reviewed (e.g. new suppliers, duplicate payments, high value/frequency payments);
- Manual cheque details are included in the creditor module and total expenditure figures produced by the system;
- Creditor related control accounts are regularly reconciled and cleared;
- Creditor accounts can only be created and amended by restricted staff and new and amended accounts are reviewed. Changes to bank account details are confirmed with the creditor;

- The creditors system is periodically reconciled to the general ledger;

10.2 The review found several areas of good practice; however, a control weakness was identified as the review found that duplicate payments were not chased in a timely manner.

**Audit Opinion- Reasonable Assurance - Action taken** – There are now two Independent checks on all payment runs. One report checks for duplicate amounts and the other checks for duplicate invoice numbers.

### **10.3 Sundry Debtors**

10.4 The Debtors team consists of a Debtors Supervisor and three Debtor Assistants. The Debtors team raises invoices at the request of the departments within the Council. The team also administers Debt chasing and recovery actions and administers write-offs in accordance with the established policies when all possible routes of recovery have been exhausted. In 2015-16 the team raised 28,605 invoices with a value of £25,451,999. The objectives of the review were to ensure that

- The key business processes that comprise sundry debtors are articulated within up to date procedure notes;
- Financial regulations and Standing Orders underpinning the debtors process are up to date and known by all relevant staff;
- All debtor requests contain details pertaining to: cost centre; value; coding; and have been authorised prior to processing;
- VAT is accounted for correctly;
- There is adequate segregation of duties between invoicing and collection of debtor monies;
- There is a clearly defined debt recovery procedure in place that is underpinned by a formal and up to date debt recovery policy;
- All write offs are authorised in accordance with the Council's Scheme of Delegation and are supported by appropriate evidence;
- Periodic reconciliations are performed between the debtors system and: the main accounting system; and feeder systems such as cash;
- Senior management review of aged debtors takes place as does the review of the financial standing of material and or/recurring bad debtors at the point of setting up a new debtor (e.g. reference to bankruptcy notices);

10.5 There were areas of good practice however; a control weakness was identified in the testing where there were instances where the Debtors Section and Legal Services had not actively pursued the aged debt. These cases are now subject to review.

**Audit Opinion – Reasonable Assurance**

### **10.6 Payroll**

The Payroll Section comprises of the Payroll and Insurance Manager and two Payroll Officers. It is responsible for the administration and processing of the salary payments (including making compulsory and volunteer deductions from salaries) for the employees at Guildford Borough Council. The Payroll Section



uses the Selima system and processes payroll for approximately 800 employees per month and 250 payees on the casual or temporary payroll.

10.7 The overall objective of the audit was to ensure that adequately controlled processes are in place that support the effective and efficient operation of the Payroll system. The specific objectives of the review were to ensure that:

- Procedures have been documented, are subject to periodic review and are readily accessible for staff;
- Access to the Selima system is restricted to authorised officers and different levels of access are granted in proportion to each user's role;
- System parameters are updated promptly on the system and only by restricted officers;
- Starters are adequately authorised and promptly and accurately recorded on the system;
- There is adequate segregation of duties in the setting up of new starters and the authorisation of payment;
- Notification of Leavers are appropriately authorised and processed on the system promptly to ensure no overpayment are made;
- Overtime claims and variances to pay (eg honoraria) are adequately authorised and checked for accuracy following input to the system.
- Exception Reports are produced and reviewed by management to identify any follow up action which may be necessary, including reasonableness checks on pay run;
- Establishment lists are periodically distributed to managers to confirm they are accurate;
- The system calculates the correct pay according to the system parameters;
- The pay file is transmitted securely each month and reconciled to the total value expected;
- Payslips are produced for every department and independently reviewed for duplicate payslips;
- Total deductions are reconciled and amounts paid to respective bodies;

10.8 There were no major areas of concern but the review found that Payroll do not maintain an authorised signatory list and evidence of authorisation of honorarium payments was not on file. There is now a formal process where HR advises Payroll of honorariums. The authorised signatory list is held in Creditors and it is felt that to compile another one would be a duplication.

### **Audit Opinion – Reasonable Assurance**

#### **10.9 Council Tax**

The Council has approximately 56,000 residential properties and the Council Tax team are responsible for collecting and processing, managing Council Tax bills and amendments. The Council Tax Manager has a team of 15 staff and in 2015-16 they achieved 99.32% collection rate with a value of £89,113,899. The objectives of the audit were to ensure:

- There are processes in place to ensure compliance with established policies, procedures, laws and regulations;
- Tax liability is identified for all properties;
- Demands are accurate and in accordance with legislation;
- Reductions are granted only after checks are made against eligibility criteria;
- Payments are credited to the correct accounts and on a timely basis;
- Write-offs are actioned in accordance with defined policy;
- Refunds are made only where there is a sound reason to do so;
- Adequate segregation of duties is in place between administration and collection duties;
- Integrity and availability of information, accounts and data;
- Management information produced is timely, appropriate and adequate;
- Personal data is processed in a secure and controlled manner in line with internal policy and legislation; and

10.10 The review found many areas of good practice.

- The Gross debit reconciliation information was generated by the Business and Systems Manager and was reviewed by the Council Tax Manager and her team prior to the annual billing run taking place.
- The Council Tax system (Civica) parameters were uploaded with the 2015/16 banding rates and were reviewed and evidenced by way of a signature and date by the Council Tax Manager.
- The 2015/16 Council Tax bandings were approved by Full Council on 11th February 2015 and was subsequently published in the local newspaper in the same month.
- The Council offers a variety of payment methods for customers. These are communicated to every household via the bill itself, booklet and the Council's website.
- Access to the Civica system is controlled and monitored by the Business Rates and Systems Manager. A quarterly review is conducted to ensure that the roles and the users are correctly recorded. Users also lock their screens when they leave their desks to ensure that personal data is not accessible in their absence.
- The Revenues section monitors on a monthly basis the Council Tax collection rate. The year end target is 99%.

10.11 There was one area, which was considered a control weakness, which related to declarations of interest by the Council Tax team. This has been referred to Human Resources and Legal Services.

**Audit Opinion – Reasonable Assurance**

**10.12 National Non-Domestic Rates(NNDR)**

The Council has approximately 4,500 business properties and is responsible for collecting NNDR from these properties. The Revenues team is responsible for collecting and managing the service for the Council. The team consists of a manager and three assistants. In 2015-16 the team had a collection rate of 99.48%, which amounted to £ 82,342,248.55

10.13 The specific objectives of the audit were to ensure that :

- There are processes in place to ensure compliance with established policies, procedures, laws and regulations;
- Tax liability is identified for all properties;
- Demands are accurate and in accordance with legislation;
- Reductions are granted only after checks are made against eligibility criteria;
- Payments are credited to the correct accounts and on a timely basis;
- Write-offs are actioned in accordance with defined policy;
- Refunds are made only where there is a sound reason to do so;
- Adequate segregation of duties is in place between administration and collection duties;
- Integrity and availability of information, accounts and data;
- Management information produced is timely, appropriate and adequate;
- Personal data is processed in a secure and controlled manner in line with internal policy and legislation;

10.14 The audit found several areas of good practice and two control weaknesses. They related to declarations of interest by the staff and the timely write-off of debts. These issues are now being dealt with and there is now a write-off programme in place.

**Audit Opinion – Reasonable Assurance**

**10.15 Legionella**

This was a follow-up to a previous audit, which was given a Limited Opinion. Progress against the recommendations from the initial review is shown below.

Recommendation	Audit Finding
The need for a Corporate Lead	Partially Implemented

Standard Procedures and Forms	Fully Implemented
Training	Fully Implemented
Change Management	Fully Implemented
Performance Indicators	Partially Implemented

Work is on-going on the two recommendations that have been partially implemented.

**Audit Opinion – Reasonable Assurance**

**11. SUBSTANTIAL ASSURANCE**

**11.1 Main Accounting**

The overall objective of the audit was to ensure that adequately controlled processes are in place to support the effective and efficient operation of the Main Accounting system. The specific objectives of the review were to ensure that:

- Access to the general ledger system is appropriate and restricted only to those who need it;
- Income and expenditure information from the feeder systems is regularly reconciled with the general ledger;
- Input into the General Ledger is complete, accurate and valid;
- Suspense/holding accounts are regularly cleared;
- Cash and Bank balances are adequately controlled;
- Closing balances from the prior year are accurately rolled forward to current year opening balances;
- Amendments to the General ledger's Master data are complete, accurate and valid;

11.2 Based on the work undertaken we gave a substantial assurance on the level of control. There were no key weaknesses identified during the audit.

11.3 We identified the following areas good practice:

- All system users are allocated a unique user ID and password controls are in place, which includes a forced change every 90 days.
- The financial system automatically checks existing users against the Windows network users and any which no longer exist on the Windows network are flagged to the System Administrators. In addition to this, the Monthly Audit Report produced for Management contains a list of users for Creditors and Debtors, which is verified by the respective Manager.
- Journals processed on the system do not require authorisation. However, individual journal entries over £1m are included within the monthly Audit

report, which is independently checked and signed off by the Head of Finance.

- The Monthly Audit Report referred to above also includes a list of new, amended and deleted general ledger codes for that period and identifies the name of the officer who has made the change.
- Monthly bank reconciliations are performed in a timely manner and are subject to review.
- Balances contained within the Income System suspense account are posted to the correct accounts throughout the year. Any remaining balances are subject to a year end clear down exercise. At the time of the audit, the suspense account balance stood at £1,187,224.73.
- The 2014/15 closing balances had been accurately brought forward into 2015/16.

### **Audit Opinion – Substantial Assurance**

#### **11.4 Treasury Management**

The Treasury Management function is managed by the Council's Accountancy Team, two Finance Officers are responsible for running this function. The Senior Accountant (Treasury Management & Capital) reports to the Head of Financial Services and the Chief Financial Officer. The audit focused on mapping the key processes that comprise the Treasury Management system and then to test a sample of transactions (investments and borrowing) to ensure that the processes are consistently followed and adequately controlled. The overall objective of the audit was to ensure that adequately controlled processes are in place to support the effective and efficient operation of the Treasury Management system. The specific objectives of the review were to:

- Review of Financial Regulations, the Treasury Management strategy and operational procedures.
- Evaluate Independent management review procedures over the Council's cash position, debt profile and performance including appropriate scrutiny arrangements over treasury management decisions.
- Consider quality of reports to Members over treasury management activity, including performance against the Prudential Indicators.
- Ensure that key reconciliations are undertaken, notably reconciliations of loans/investment records to the ledger; investment income, purchases and payments to cash.
- Consider adequacy of segregation of duties.
- Review access controls over the Treasury Management system and ensure that back up processes are in place;

11.5 Overall, based upon the work undertaken, we gave substantial assurance on the level of control and no key weaknesses in control were identified.

11.6 The areas of good practice and effective controls are shown below:

- The Council's 2015/16 Treasury Management Annual Strategy was approved by the Executive on 20 January 2015;

- The TM team maintain a detailed TM monitoring spreadsheet which contains the monthly reconciliations for investments and loans;
- There is an adequate paper audit trail in place to support all investments made and borrowing taken out during the year;
- The Council's cashflow position is reviewed and uploaded onto LATIMA 2000 (cashflow system) daily by the Senior Accountant;
- The Senior Accountant receives daily information with regards to investment rates from a vast number of sources, such as the Council's stock brokers, banks;
- The Council adheres to an approved list of counter-parties;
- Half yearly TM monitoring reports are presented to the Executive. The 2015-16 TM monitoring report was in the process of being compiled to be presented to Scrutiny in November 2015.

### **Audit Opinion – Substantial Assurance**

#### **11.7 Housing Benefit**

The Housing Benefits caseload is made up of pension and working age claimants. The Department of Work and Pension pays back all Housing Benefits payments that have been made through its subsidy regime. In 2015/16 the Housing Benefits team processed 2,948 new claims and 30,224 Change of Circumstances. Total payments were £35.3 million.

The overall objective of the audit was to ensure that adequately controlled processes are in place that supports the effective and efficient operation of the Housing Benefit system. The specific objectives of the review were to ensure that:

- There are appropriate and adequate procedures in place for the administration of benefit claims;
- Claims are processed in an accurate and timely manner in accordance with policies and procedures;
- Payments are made in accordance with legislative requirements and procedures;
- Calculations of overpayments are accurately assessed, supported by adequate documentation and appropriate action is taken to ensure appropriate recovery;
- Regular and timely reconciliations are performed to confirm that integrity and availability of information, accounts and data;
- Management information produced is timely, appropriate and adequate;
- Subsidy claims are submitted on a prompt and regular basis, to ensure that the correct amount of subsidy is received in a timely manner;

Overall, based upon the work undertaken, we gave a substantial assurance on the level of control and no key weaknesses were identified during the audit.

11.8 The following areas of good practice were identified:

- The Housing Benefit system parameters are uploaded by the Systems Team in February of each year. The Housing Benefits Manager checks the data and highlights any amendments, which are re-checked. Records of the checks undertaken and all relating correspondences is kept in a file;
- Destin Solutions hosts the Housing Benefit guidance notes, which staff can access via the internet. Any changes to the guidance notes are amended by the Housing Benefit section and these are then uploaded onto the internet.
- Testing of a sample of twenty Housing Benefits payments identified that in all cases, payments had been correctly and accurately recorded on the benefits system.
- Emergency Cash payments are not considered necessary as there are payment runs every Wednesday and Friday.
- The Finance Section notifies Housing Benefits of any returned payments which are in turn investigated.
- The 2015/16 Housing Benefits Subsidy claims were submitted to the Department of Works and Pensions as per the prescribed deadlines:

### **Audit Opinion – Substantial Assurance**

#### **11.9 Land Charges**

Local Land Charges were the creation of the Local Land Charges Act 1925, which was subsequently added to by the Local Land Charges Act 1975 and aims to protect buyers of the land from being caught out by obligations against them by local authorities under various statutes.

11.10 A local land charge is a restriction on a piece of land or property that can limit its use or bind the owner to a payment of a sum of money. Charges can include planning decisions; road agreements; tree preservation orders; conservation areas and listed buildings notices; environmental health notices and charges or objections made against previous owners.

The objectives of the audit were to ensure:

- Compliance with the Land Charges Act 1975 and the latest rulings regarding the VAT charge for CON29R and CON290 under the Environmental Information Regulations.
- Compliance with the Court of Justice of the European Union regarding the implications for charges for property searches.
- The Land Charges Section maintains a register, which is up to date and current.
- Income received is banked promptly and the register is updated accordingly.
- Regular reconciliations are carried out between income collected and the accounting records in the General Ledger.

- Budget monitoring is effective and carried out on a regular basis.
- The fees are calculated to reflect a break-even service.

The audit found that the controls in place were sound and there were no key control weaknesses

**Audit Opinion – Substantial Assurance**

**12. ONGOING WORK**

	<b>Status</b>	<b>Predicted Audit Opinion</b>
Grants	Draft Report in preparation	Reasonable
Income mapping	Phase 3 in progress	Reasonable
Asset Management	Draft Report with service manager	Reasonable
Industrial Estates	Draft Report in preparation	Reasonable
Asbestos	Draft Report with service manager	Reasonable
Tenancy Fraud	Initial assessment complete testing in six months	No Opinion
Network Security	Draft Report in preparation	Reasonable
Information Security	Draft Report in preparation	Reasonable
Energy Management	Benchmarking data gathering complete (FSR)	No Opinion
S106 Review	Draft Report with Service Manager	Reasonable
Building Maintenance	Initial phase (FSR)	No Opinion
Anti-money Laundering	Policy review in progress, risk areas identified	No opinion
Taxable Benefits	Draft Report with Service Manager	Reasonable
Complaints	In progress	No opinion

I have given indicative audit opinions to these audits based on the findings so far but I will inform the Committee of any significant changes. Where there is No Opinion this is either A Fundamental Service Review, which is in, progress or we have done preliminary work and agreed an action plan with the service managers, which we will test at a later date.



### 13. CORPORATE PROJECTS

#### 13.1 Ombudsman

There have been 13 Local Government Ombudsman (LGO) complaints in 2015-16. A summary of the cases is set out below:

Reference	Date of Decision	Service	Outcome
AJ/14/0004	27/04/2015	Corporate and Legal	Not Upheld , no maladministration
AJ/15/0001	29/04/2015	Environmental Services	Premature
AJ/15/0002	15/06/2015	Planning	Not Upheld , no maladministration
AJ/15/0004	28/09/2015	Housing	Closed after initial enquiries
AJ/15/0005	10/08/2015	Planning	Closed after initial enquiries – out of jurisdiction
AJ/15/0003	26/11/2015	Planning	Upheld – maladministration and injustice
AJ/15/0007	7/12/2015	Housing	Premature
AJ/15/0011	15/02/2016	Highways	Closed after initial enquiries – out of jurisdiction
AJ/15/0010	18/02/2016	Planning	Upheld – maladministration no injustice
AJ/15/0009	18/02/2016	Planning	Upheld – maladministration no injustice
AJ/15/0008	18/02/2016	Planning	Upheld – maladministration no injustice
AJ/15/0013	7/03/2016	Corporate and Legal	Premature

### 14. GOVERNANCE PROJECTS

#### 14.1 Challenge to Taxi Licensing inspection fees

We received a challenge to our taxi licensing inspection fees, Internal Audit was asked to review the basis of our charges in particular the calculation of the inspection fee.

#### 14.2 Project Management

Although the Council follows PRINCE 2 principles for project management, we did not have a corporate project management system. We introduced a programme management system, which would provide a transparent mechanism to monitor and report on the multiple projects across all services. The first phase of the system went live in February 2015. This is an on-going project and the capability and flexibility of the software will allow us to use it for other areas. The service planning process is now on the system and the next phases will include risk and performance management.

- 14.3 We carried out a review on the governance of the Riverside Towpath project and found that there were areas for improvement. The review identified issues with communication and roles and responsibilities which need to be addressed to ensure that the Council's projects are managed in a consistent manner in line with the Council's policies and procedures.

## **15. SERVICE REVIEWS**

- 15.1 Over the last year, Internal Audit has worked with managers on lean reviews, some as stand-alone projects and some as part of their fundamental reviews. Although this is not traditional audit work, many of the business process re-engineering disciplines involved are closely related to audit systems analysis. This has the benefit of helping managers make efficiency savings but it also increases our understanding of the services and the business risks.

### **15.2 Heritage Services**

We have been working with Heritage Services (Museum, Guildford House) on a Lean Review. This looks at all the business processes, structures and synergies to deliver a more streamlined efficient and effective service. This is now nearly complete and a report with recommendations for the future is being prepared.

### **15.3 Parking**

We carried out a comprehensive review of the back office systems in the Parking Office as part of their fundamental service review and identified a number of possible efficiencies and savings. A major element of the delivery of the savings was the introduction of new parking software. This will allow many of the back office systems to be automated, which in turn should allow us to capture many of the efficiencies identified in the lean review.

## **16. CONCLUSION**

There has been a marked increase in the pace of change at the Council. Services and structures are evolving and the pressure and uncertainty that change brings increases the risk of the degradation or breakdown of the control environment. We have continued to work with management to identify and examine these areas of potential risk. We are also working with services not only through the traditional audit route but also through lean reviews and business process re-engineering. This is a time of change for the organisation. The audit plan for 2016-17 is structured to reflect the changing needs and priorities of the Council. We will continue to review the audit service to ensure that we have the necessary resources and expertise to deliver a robust audit plan in line with best practice. This means that we can ensure that any new system includes the necessary controls and governance.

## **17. Financial Implications**

- 17.1 The financial implications of the new structure were the subject of a growth bid, which has been agreed.

## **18. Legal Implications**

- 18.1 The Local Government Act 1972 (S151) requires that a local council "shall make arrangements for the proper administration of their financial affairs".

- 18.2 The 1972 Act is supported by the Accounts and Audit Regulations 2011 which state that “ A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control “.
- 18.3 The internal audit plan is necessary to satisfy these legal obligations.

**19. Human Resources**

- 19.1 The new structure will be in place in the latter half of 2016-17 and may lead to a change with the Plan and this will be reported to Committee.

<b>Audit Plan 2016-17</b>				
<b>Appendix 1</b>				
<b>Service Unit</b>	<b>Risk Score</b>	<b>Audit Days</b>	<b>Audit Type</b>	<b>Progress</b>
<b>Economic Development</b>				
Electric Theatre	B	10	Asset Management	
Guildford House	B	10	Lean Review	In Progress
Museum	B		Lean Review	In Progress
Guildhall	B		Lean Review	In Progress
TIC	B		Lean Review	In Progress
<b>Planning</b>				
Planning Enforcement	A	15	Compliance	
<b>Operational Services</b>				
CCTV	B	10	Follow-Up	
Dog Control	C	5	Lean Review	
Fleet management	B	20	Systems Audit	
Parking	A	15	System Implementation	
Refuse And Recycling	B	10	VFM Audit	
Street Cleansing	B	10	VFM Audit	
Vehicle Maintenance	B	10	Systems Audit	
<b>Parks and Leisure</b>				
Crematorium	B	8	Systems Audit	
Parks and Leisure	B	10	FSR	
Glive	B	8	Contract Monitoring	
Leisure Management Contract	B	10	Contract Monitoring	
<b>Financial Services</b>				
Main Accounting	A	10	Journal Testing	
Treasury Management	A	10	Compliance	
Debtors	A	10	Performance testing	
<b>Revenues and Payments</b>				
Council Tax	A	10	Discount review	
Housing Benefit	A	10	Subsidy testing	
NNDR	A	10	Discount Review	
Payroll	A	10	Data Quality Checks	
Insurance	B	10	Compliance Audit	In progress
Creditors	A	10	Duplicate Payments	
Cash and Bank (Adelante)	A	5	Follow-Up	
Purchase to Pay System (Procurement Cards)	B	8	Follow-Up	
Self-Employed	B	10	Compliance Audit	In Progress
Authorised Signatories	A	3	Compliance Audit	

<b>Legal and Democratic Services</b>				
Elections	B	10	Compliance	
Electoral Registration	B	10	Compliance	
<b>Health and Community Care</b>				
Community Transport	B	10	Systems Audit	
Premises Licenses	A	10	Systems Audit	
Food and Safety	A	10	Compliance	
Grants to Voluntary Organisations	B	5	Compliance	<b>In Progress</b>
Health and Safety	B	10	Compliance	
Taxi Licensing	A	10	Compliance	
Env Health Out of hours payments	B	10	Systems Audit	
<b>Housing Advice</b>				
Homelessness and Emergency Accommodation	B	10	Systems Audit	
Tenancy Fraud	A	10	Systems Audit	<b>In Progress</b>
<b>NHMS</b>				
Building Maintenance	A	20	FSR	
Rents (Arrears and Write-Offs)	A	10	Follow-Up	
Stores	A	10	Follow-Up	
Gas Servicing	A	10	Follow-up	
<b>Business Systems</b>				
Network Security	A	10	Systems Audit	
Access Controls	A	10	Follow-up	
Information Security	A	10	Systems Audit	
Change Control	B	5	Systems Audit	
Asset Management	B	5	Follow-up	
Business Continuity	A	10		
<b>Economic Development</b>				
Industrial Estates	B	10	Systems Audit	<b>In Progress</b>
Asset Management	B	10	Systems Audit	
Energy Management	B	10	FSR	<b>In Progress</b>
<b>Human Resources</b>				
Selima Access Controls)	A	5	Systems Audit	
Home Working/Remote Access	B	15	Systems Audit	
Staff Benefits	B	10	Systems Audit	
<b>Governance</b>				
Risk Management	A	10	Performance Review	
Performance Management	A	10	Performance Review	
Project Management	B	15	Performance Review	
Transparency Code	A	10	Performance Review	<b>In Progress</b>
Money Laundering	A	10	Performance Review	<b>In Progress</b>
Complaints	A	5	Performance Review	
Data Quality Assurance	A	15	Systems Review	
Public Health and Wellbeing Agenda	A	5	Performance Review	

<b>Contracts</b>				
Service Contracts	A	15	Systems Audit	
Term Contracts	A	15	Systems Audit	
Capital Projects	A	15	Systems Audit	
<b>Non Rechargeable</b>				
Sick Leave		15		
Appraisals		5		
1:1s		5		
Training		5		
Audit Planning		5		
Audit Management		5		
Committee Reports		3		
Recommendation Management		5		
New Audit Contract		5		
<b>Non Audit Duties</b>				
Ombudsman		15		
Lean		15		
FOI/SAR		15		
Special Projects		15		
<b>Total Days</b>		<b>770</b>		

Corporate Governance and Standards Committee Report

Report of the Managing Director

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Date: 16 June 2016

## Annual Governance Statement

### **Executive Summary**

The Accounts and Audit (England) Regulations 2015 require the Council to prepare an Annual Governance Statement detailing the governance framework and procedures that have operated at the Council during the year, a review of their effectiveness, significant governance issues that have occurred and a statement of assurance. This report outlines the background to the Annual Governance Statement and provides the Annual Governance Statement for 2015-16 at Appendix 1. The Annual Governance Statement is underpinned by the Audit and Performance Manager's (as Head of Internal Audit) Annual Opinion Report April 2015 to March 2016. The opinion is attached as Appendix 2 to this report.

The Annual Governance Statement will be included in the Council's statement of accounts for 2015-16. The statement concludes that we are a well-run Council with good governance processes in place however there have been a number of significant governance issues during the year, which are reported in Appendix 1 section 6.

### **Recommendation to Corporate Governance and Standards Committee:**

That the Committee considers the Council's Annual Governance Statement as set out in Appendix 1 to this report and refers any comments that it feels appropriate to the Executive.

### Reason(s) for Recommendation:

To comply with Regulation 10 of the Accounts and Audit (England) Regulations 2015, the Executive must approve an Annual Governance Statement.

**1. Purpose of Report**

- 1.1 This report explains the requirement for the Council to prepare an Annual Governance Statement, which the Executive is asked to approve and the Leader and the Managing Director to sign on behalf of the Council.
- 1.2 This report invites this committee to review the draft statement and refer comments to the Executive

**2. Strategic Framework**

- 2.1 Ensuring long-term financial stability and sound financial governance is a key priority under the 'Your Council' theme within the Corporate Plan

**3. Background**

- 3.1 The Council has a responsibility to ensure that it conducts its business in accordance with the law and proper standards, that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively.
- 3.2 In discharging these overall obligations, the Council is responsible for putting in place appropriate arrangements for the governance of its affairs and ensuring that there is a sound system of internal control that facilitates the effective exercise of its functions and includes arrangements for the management of risk. The overall system of controls across the Council contributes to the effective corporate governance of the organisation.
- 3.3 The Audit and Performance Manager and the Head of Financial Services have drafted the statement on behalf of the Chief Finance Officer. She has then reviewed the document and made amendments and additions. Internal Audit, through the Audit and Performance Manager, has provided independent assurance over the system of internal control.
- 3.4 Good governance is about getting things right first time by focussing on the things that matter most. It is about:
  - demonstrating leadership and respect for the democratic process and the purpose of public bodies making proper, timely and transparent decisions
  - managing risk and allocating resources effectively
  - knowing your customers and stakeholders
  - being open, honest and taking responsibility and accountability for your decisions
  - demonstrating high standards of integrity and behaviour both as an individual and as a corporate body.
- 3.5 Good governance is the responsibility of everyone within the organisation and impacts on all the activities of the Council and how we deliver our services.
- 3.6 The Audit Commission and Chartered Institute of Public Finance and Accountancy (CIPFA)/Society of Local Authority Chief Executives (SOLACE)



have defined a common governance framework and a set of principles for all public services, called Delivering Good Governance in Local Government. CIPFA/SOLACE, last updated in 2012. The Annual Governance Statement attached at **Appendix 1** follows the framework and example governance statement provided in it.

- 3.7 As part of the Annual Governance Statement, we have identified a number of significant governance issues that the Council is working on resolving. These are outlined in section 6 of Appendix 1.

#### **4. Financial Implications**

- 4.1 There are no financial implications related to this report

#### **5. Legal Implications**

- 5.1 In order to comply with Regulation 10 of the Accounts and Audit (England) Regulations 2015, the Council must approve an Annual Governance Statement.

#### **6. Human Resource Implications**

- 6.1 There are no human resource implications to this report.
- 6.2 We will work with PR and marketing on any communications issues that arise.

#### **7. Conclusion**

- 7.1 We are a well-run Council with good governance processes in place. However we must continue to improve and in 2016-17 will be concentrating on:
1. The Transformation Programme; which includes fundamental service reviews, asset investment and traded service reviews
  2. Project Management
  3. Risk Management
  4. Performance Management
  5. Workforce Development
  6. Records Management
  7. Improving Transparency

#### **8. Background Papers**

Accounts and Audit (England) Regulations 2015  
Delivering Good Governance in Local Government (CIPFA/SOLACE)

#### **9. Appendices**

Appendix 1: Annual Governance Statement  
Appendix 2: Audit and Performance Manager's (as Head of Internal Audit)  
Annual Opinion Report April 2015 to March 2016.

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## ANNUAL GOVERNANCE STATEMENT 2015-16

### 1. SCOPE OF RESPONSIBILITY

- 1.1. Guildford Borough Council is responsible for ensuring that it conducts its business in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs to facilitate the effective exercise of its functions, including arrangements for the management of risk.
- 1.3. The Council has approved and adopted, alongside the Council's Constitution, a local code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE framework Delivering Good Governance in Local Government, including compliance with the CIPFA Statement on the role of the Chief Financial Officer in Local Government (2010) . A copy of the code is on the website at [www.guildford.gov.uk](http://www.guildford.gov.uk) or can be obtained from Corporate Services, Millmead House, Millmead, Guildford, Surrey, GU2 4BB (tel. 01483 444854).
- 1.4. This statement explains how the Council has complied with the code and meets the requirements of regulation 4) of the Accounts and Audit Regulations 2015 in relation to internal control.

### 2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

- 2.1 The governance framework comprises the systems, processes, culture and values by which the authority is directed and controlled and the activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.
- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood and impact should those risks be realised and to manage those risks efficiently, effectively and economically.
- 2.3 The governance framework has been in place for the year ended 31 March 2016 and up to the date of approval of the statement of accounts.

### 3. GOVERNANCE FRAMEWORK

- 3.1 The Council is a complex organisation with an appropriately comprehensive governance framework that works in a dynamic environment and keeps its processes under constant review.

#### **Strategic Framework and Performance Management**

- 3.2 The Governance arrangements start with the Strategic Framework, which sets out the Vision and Mission and establishes the Council's key priorities. In October 2015, the Council approved a Corporate Plan for the period 2015-2020, which can be found on the Council's website <http://www.guildford.gov.uk/corporateplan>. The

Agenda item number: 5

Appendix 1

Corporate Plan is an essential part of our strategic framework and sets out the vision for the borough for the next five years.

- 3.3 The Corporate Plan has five themes, which have informed the more detailed service plans. The five themes provide a focus for Council activities and there is a clear link between service delivery and the Council's corporate objectives. We monitor progress against the objectives through regular performance monitoring reports to the Corporate Management Team. The five themes are:
- Our Borough
  - Our Economy
  - Our Infrastructure
  - Our Environment
  - Our Society
- 3.4 In February 2015 the Council implemented a new programme and project management system. All projects, whether in the corporate plan or service level projects, are now captured within the system which allows risks and performance to be captured at an individual project level and reported either by project or at summary level.
- 3.5 We have embedded risk management within the organisation. It is an integral part of project management on each project. The format of the risk register conforms to the latest guidance from ALARM, the public sector risk management association.
- 3.6 We record risks at all levels from the basic, but essential, health and safety risks such as slips, trips and falls to high level-risks such as the impact of the financial situation and climate change. We publish a financial risk register to risk assess the Council's budget as part of our annual budget book and medium term financial plan. The financial risk register informs the level of general fund unallocated reserves that the Council holds.
- 3.7 Risk Management is an integral part of project management and we use risk management effectively in all of our significant projects. However, we do not currently apply risk management consistently in all of our smaller projects. This will be the subject of a review in the first part of 2016-17.
- 3.9 We recognised this was an issue and we have reviewed our project management framework. We had already identified a framework that tailors the project management process to the scale of the project but we needed a formal programme management framework to monitor the wide range of projects and activities which are needed to deliver the targets in the Corporate Plan. This was introduced in April 2015 and training has been rolled out to all project management staff during 2015-16.
- 3.10 The Council has always scored well under the External Auditor's annual assessment of Value for Money. In 2015-16, we continued with our Lean Management Programme and Fundamental Service Reviews (FSRs) to improve services and reduce costs. Over the coming years every service will be subject to a FSR and its associated scrutiny and improvement. The FSR reviews will actively look at alternative methods of service delivery through the Lean programme, shared services and partnerships with the public, voluntary or commercial sectors.
- 3.11 We have already started to transfer some administrative tasks into the Customer Service Centre as the first point of contact and resolution. This has released resources in the front line services to concentrate on technical and professional activities.

- 3.12 Our achievements against the 2013-2016 Corporate Plan are stated on page 11 of the 2015-2020 Corporate Plan, overall the Council completed or is on track to complete 89% of the targets its set out to achieve in the Corporate Plan between 2013 and 2016. In addition, the Council has maintained its strong financial performance, including its Aa1 credit rating with Moody's. Our performance over the period 2013 to 2016 demonstrates the Council's sound governance arrangements.

**The Constitution**

- 3.13 The Council has a comprehensive Constitution that covers, amongst other things, the roles and responsibilities of Councillors and officers. We constantly review the Constitution with amendments agreed and issued throughout the year to ensure that it remains relevant to the objectives contained in the Strategic Framework.
- 3.14 We completed a major review of the Constitution in 2014-15. In November 2015, the Corporate Governance and Standards Committee approved changes to the disciplinary procedures for senior officers (following a change in legislation) and other minor amendments to the Constitution. The Executive approved a new corporate procurement strategy in April 2015 and approved the establishment of a Corporate Procurement Advisory Panel to enhance the governance arrangements and consistency of procurement processes across the Council. We have also undertaken a series of training sessions on procurement for service managers. The procurement panel has met several times during 2015-16.
- 3.15 In November 2014, following a motion to Council, the former Joint Scrutiny Committee set up an overview and scrutiny task and finish group which reviewed the Council's governance arrangements. Council approved the findings from the review in July 2015 and re-established a task and finish group to establish the detailed changes required. The task and finish group's proposals were adopted by Council in October 2015 and the Council implemented the new governance arrangements in January 2016. The key changes were that, from January 2016 the Council:
- operates with an Executive which receives advice from two politically balanced Executive Advisory Boards (EABs)
  - dissolved the existing scrutiny committees and replaced them with one overview and scrutiny committee. Whilst this Committee has the powers and role prescribed for it by the Local Government Act 2000 (as amended), it will focus on post-decision review of Executive decisions and wider external scrutiny
  - recognised the importance of the Corporate Governance and Standards Committee and expanded its role to include treasury management and budget monitoring
  - improves communication with ward Councillors
  - improves public awareness of the decision-making processes at the Council and its governance arrangements.

Agenda item number: 5

Appendix 1

- 3.16 In July 2015, the then Leader of the Council asked the Monitoring Officer to conduct a review of the Council's Procedures for dealing with allegations of misconduct by Councillors and Co-opted Members (Constitution Part 5). Hoey Ainscough Associates Ltd were instructed to undertake an independent review of the Council's procedures. The review found that the high-level process is broadly in line with processes seen elsewhere, however, a number of recommendations were raised relating to guidance on implementation and communication of the process. The Corporate Governance and Standards Committee considered the findings of the review at their meeting in November 2015 and established a working group to review and implement the recommendations. The working group reported back to the Corporate Governance and Standards Committee at its meeting in March 2016 and also to Council in April 2016.
- 3.17 The main recommendations of the working group (which will continue to meet to finalise and implement the recommendations) were:-
- The protocol for Independent persons be revised
  - guidelines and a policy for communications be established; together with guides for the complainant and councillor against whom a complaint is made;
  - assistance to political groups/group leaders as regards any statements relating to standards and the private capacity of councillors;
  - a protocol with the Police where a complainant alleges criminal behaviour;
  - the redrafting of the Council's Arrangements for dealing with allegations of misconduct by councillors and co-opted member to incorporate the Report and the work described in the preceding paragraphs; and that such redrafting might usefully include a separate version of the Arrangements containing only those elements relevant to allegations of misconduct by parish councillors

**Forward Plan and Committee Decisions**

- 3.18 We use the Forward Plan to manage the work programme and decisions of the Executive and full Council. The work programme for the two EABs and overview and scrutiny committee are discussed at agenda setting meetings held every two months with the respective Chairmen and Vice-Chairmen.

**Overview and Scrutiny Committee**

- 3.19 The Committee was established in January 2016 and (subject always to its formal powers and role prescribed by the LGA 2000) has the power to scrutinise decisions or actions in relation to both the Executive and Non-Executive functions of the Council, including decisions taken by officers under delegation. The Committee can also undertake reviews and in-depth investigations in order to provide advice and recommendations. In general, the Overview and Scrutiny Committee undertakes the following activities:
- Scrutinising the decisions of the Executive and non-Executive functions throughout the decision-making process.
  - Contributing to policy development by examining performance and policy outcomes against local service need and provision.

- Reviewing council services to ensure they are achieving customer satisfaction, value for money delivering performance and meeting standards.
- Reviewing how effectively the council delivers services with external agencies.
- Appointing sub-committees to fulfil overview and scrutiny functions;
- Undertaking investigations into such matters relating to the Council's functions and powers as:
  - (i) may be referred by the Council/Leader/Executive; or
  - (ii) has been referred to the committee because of the councillor "call-in" procedure set out in the Overview and Scrutiny Procedure Rules in Part 4 of the Constitution

### **Corporate Governance and Standards Committee**

3.20 Following enactment of the Localism Act 2011, the Standards Committee and Audit Committee were disbanded and a new committee known as the Audit and Corporate Governance Committee was established. In May 2014, the Committees were further re-organised and the committee with responsibility for audit and accounts, corporate governance and ethical standards is now known as the Corporate Governance and Standards Committee. The role and functions of the committee include:

#### Audit and Accounts activity

- monitoring internal audit activity and receiving bi-annual reports from the Executive Head of Organisational Development
- receiving reports from the external auditor, including his annual letter
- review and approve the annual statement of accounts
- review and recommend to Executive / Council the treasury management strategy
- receive treasury management monitoring reports
- receive budget monitoring reports

#### Corporate Governance activity

- monitoring and reviewing the Council's constitution
- corporate governance, risk management, statement on internal control and any issues referred to it
- compliance with the Council's own and published standards
- receiving an annual report regarding complaints about the Council referred to the Local Government Ombudsman
- monitoring the effectiveness of various Council policies

#### Ethical Standards activity

- implementing, monitoring and reviewing the operation of codes of conduct for Councillors and Officers
- promoting and maintaining high standards of conduct by Councillors and co-opted members
- investigating and determining allegations of misconduct where determination by the Monitoring Officer is considered inappropriate

The full role and responsibilities are available on our website, at Part 2 (Article 11) of the Constitution.

## Agenda item number: 5

### Appendix 1

- 3.21 We advise the committee, through a regular reporting process, of progress against agreed internal audit recommendations and other governance issues such as equalities, risk management, sickness, health and safety, business recovery and data quality.

#### **Compliance with Laws and Regulations**

- 3.22 The Council employs appropriate professional staff in relevant fields to provide guidance and advice as required. Part of their role is to ensure that the actions of the Council and individual councillors and officers comply with relevant laws and regulations, as well as the Council's own policies and procedures.
- 3.23 The Managing Director undertakes both the statutory roles of Head of Paid Service and Chief Finance Officer. The arrangement of one officer performing both roles is unusual but not unique. The Managing Director is supported by two Deputy Chief Finance Officers so that where a conflict of interest could exist, the Managing Director assumes the role of Head of Paid Service, and one of the Deputy Chief Finance Officers assumes the role of the Chief Finance Officer. In this arrangement, the Council ensures separation of duties exists where necessary and the governance framework is maintained.
- 3.24 The Corporate Management Team, led by the Managing Director (Head of Paid Service and Chief Finance Officer), reviews all reports to the Executive. The Director of Corporate Services is the Council's Monitoring Officer and Deputy Head of Paid Service. The director is part of the Corporate Management Team and is supported by two Deputy Monitoring Officers so that in the event that the Director is asked to assume the role of Head of Paid Service, one of the two Deputy Monitoring Officers will assume the role of Monitoring Officer to prevent any conflict of interest. In addition, the Council has comprehensive Financial Procedure Rules and Procurement Procedure Rules as part of the Constitution that provide guidance on spending decisions to ensure that expenditure is lawful and properly controlled.
- 3.25 During 2015-16 there were 13 complaints to the Local Government Ombudsman of which 4, all relating to planning, were upheld, the ombudsman deemed that there had been no injustice in 3 of these upheld cases. The remaining cases were either not upheld, closed after initial enquiries or judged to be either premature or out of the jurisdiction.

#### **Whistleblowing and Complaints**

- 3.26 The Council has a Whistleblowing policy as part of its Constitution.
- 3.27 In 2014-15, the Council introduced a new corporate complaints process. This has shortened and simplified the process for the customer and improved the timeliness and quality of complaint handling. We have created a new post of Complaints and Improvement Officer to monitor complaints, identify trends and work with managers to drive service improvements.

#### **Development of Councillors and Senior Officers**

- 3.28 Our Corporate Plan 2015 - 2020 includes a priority of developing our people (councillors and officers) to prepare for the future. All officers (including senior officers) have two performance reviews (appraisals) a year. Officers also have a series of one to one meetings with their line manager to discuss individual performance against agreed targets. This is also an opportunity to identify development needs and training requirements against the Council's objectives.
- 3.29 Each post has a set of linked behavioural competencies against which staff performance is assessed during the annual performance review.
- 3.30 The Council also recognises the importance of ensuring that its councillors receive all necessary training and development in order to carry out their various roles. In September 2013, the Council received accreditation under the South East



Employers Charter for Elected Member Development by demonstrating that we had a strategic approach to councillor development, which linked to the Council's corporate objectives and priorities. The Councillor Development Steering Group has put in place a comprehensive member development programme that meets councillors' ongoing training and development needs. The processes and procedures put in place give us a robust framework for responding to future challenges and legislative changes. The Council continues to meet the standard of the Charter as demonstrated recently in our 18-month interim assessment carried out by South East Employers in March 2015. The Council will be seeking reaccreditation in November 2016.

- 3.31 We offer training for Councillors on a wide range of topic areas such as Ethical Standards, Planning, Licensing, Overview and Scrutiny, local government finance, media skills, chairing skills and time management.
- 3.32 During 2015-16 the steering group undertook a comprehensive induction programme for new councillors following the Borough elections in May 2015.
- 3.33 The Council has adopted a Corporate Plan which clearly set out its aims and objectives over the 2015-2020 period, but they need to be underpinned by a clear set of values that are understood and adhered to by staff at all levels. The work that we have carried out on values and performance and development provides staff with an understanding how they contribute to the achievement of our corporate priorities.
- 3.34 We successfully retained our IIP Bronze status. We also retained our Customer Service Excellence Standard. The assessor found a deep understanding and commitment to customer service excellence from senior management through to front line staff.

**Communication, Consultation and Accountability**

- 3.35 The Council has well-established processes to manage and provide effective communication with residents, businesses, visitors and stakeholders. As part of this, we produce and deliver four editions a year of our Council newspaper, About Guildford, to all households in the borough to update local people about the Council's activities, services and performance. We also use online and social media tools to reach as many people as possible with the latest news and information. The Council provides a comprehensive media service for proactive releases and reactive requests for local, regional and national press, as many residents use online, broadcast and other news sources.
- 3.36 In addition, we have a corporate procedure for producing individual services' publications for residents and customers to provide information and education (for example, to encourage behaviour changes in recycling and litter). Also to support individual services in their own social media and other communications.
- 3.37 The Council has a corporate identity, which is used to brand communications and services. This helps customers and taxpayers to understand and recognise which services we provide or are responsible for.
- 3.38 We are continuing to look at ways to improve customer service and access through our website. We have reviewed the way that our residents are using the website and have started moving towards a self-service model for our report/pay/apply section. We are also continuing to expand our use of social media to improve our customer engagement.
- 3.39 The Council realises the importance of consultation with our residents and community. We already consult widely in line with our Community engagement strategy and consultation standards using publications, surveys, focus groups and our Citizens' Panel. We recognise the need for greater engagement and involvement with residents and stakeholders in our strategic decision-making and

Agenda item number: 5

Appendix 1

service delivery and are working on an action plan to improve our consultation processes still further.

- 3.40 Many of our services actively consult with the community as an integral part of their service delivery, for example our widespread consultation on the draft new Local Plan. However, our community is changing and we need to be responsive to their developing needs. We have identified consultation as part of the overall process of transparency and engagement with our residents and customers.
- 3.41 As part of our commitment to openness and transparency, we have increased the amount of information available on our website. This should reduce the demand from Freedom of Information (FOI) requests.
- 3.42 During 2015 (our current system reports on calendar rather than financial years) the number of FOI requests received was 672. This was down from the previous year (848).
- 3.43 We are required to respond to FOI requests within 20 working days. The Information Commissioner sets an informal Minimum Compliance threshold for this target of 85%. In 2014, we achieved 69% due to a significant increase in the number of FOI's received. As a result, we introduced regular reports on performance to the Corporate Management Team and are introducing a new system to manage the process. This has resulted in performance of 81% for 2015 and continued improvement into 2016. During 2015-16, 5 referrals were made to the ICO regarding the Council's responses to FOI requests, of these two cases were closed by the ICO without further investigation, 2 cases were found in the Council's favour and in the remaining case the Council was requested to release previously withheld information.

**Partnerships**

- 3.44 Our mission statement emphasises the importance of partnership working in providing first class services. At the strategic level, we established a new Guildford-Surrey Board in September 2013 to replace the former Guildford Local Strategic Partnership. The Board, which comprises senior Councillors and officers from the Borough Council and Surrey County Council, together with representatives of the University of Surrey, Royal Surrey County Hospital. Guildford College and Enterprise M3, focuses on the overseeing the delivery of the following shared priorities:
- a. infrastructure improvements, including roads (trunk roads and town centre), rail and future transport innovations
  - b. economic development, including sustainable business and jobs growth and access to learning and skills
  - c. promoting sustainable development, including housing
  - d. delivering public health improvements
  - e. supporting families and our less advantaged communities, including in the light of welfare and benefit reforms
  - f. maximising the use of our assets and estates to drive income and community benefit
  - g. maximising the value extracted from waste.
- 3.45 At the same time, we established the Guildford Health and Wellbeing Board comprising representatives of the Council and other major public and voluntary

sector organisations, such as Guildford and Waverley Clinical Commissioning Group, Royal Surrey County Hospital and Surrey County Council. The Board supports and promotes the public health agenda in its widest sense. This incorporates health improvement (including people's lifestyles, inequalities in health and the wider social influences of health), health protection and health services. The Board is responsible for developing and implementing the Guildford Health and Wellbeing Strategy.

- 3.46 We have also forged a strong relationship with the Enterprise M3 Local Enterprise Partnership (LEP). The Leader of the Council joined the Board in 2014, and the Council enjoys regular representation at all levels of the LEP through strategic working groups. The Council provided significant input into the formation of the LEP's Strategic Economic Plan and subsequent Local Growth Deal submission and European Funding Investment Strategy. This included formulating a broad and comprehensive growth package for consideration by government covering infrastructure, housing, skills and enterprise.
- 3.47 Through Enterprise M3, we are able to access capital funding and borrowing at preferential rates for key strategic projects. We have recently:
- been successful in obtaining financial support for the Clay Lane Link road,
  - received funding to deliver Walnut Bridge, a key gateway to the town from the station and part of the sustainable movement corridor
  - received funding to implement an improved cycle path along the riverside in Guildford
  - continue to work with Surrey County Council (as the local transport body) to bid for funding under the Local Growth Fund for schemes set out in our Guildford Transport Strategy
- 3.48 We are also involved in a large number of service specific partnerships. Examples of best practice include Surrey Strategic Waste Partnership, Safer Guildford Partnership and the Choice-Based Lettings housing scheme.
- 3.49 The Council worked with Surrey Lifelong Partnership, Oakleaf Enterprise and Guildford YMCA to establish GLADE (Guildford Learning and Development Enterprise) This is social enterprise was developed to provide training, skills, qualifications and employment opportunities for young unemployed people in Westborough and Stoke. The Council contracts with Glade to provide gardening services on behalf of the Council at day centres, sheltered housing schemes, elderly tenant's homes and street cleansing services in Westborough.
- 3.50 We also support the Guildford Bike Project, another Social Enterprise, which has a shop in Westborough and a workshop at Woking Road Depot. The bike project provides employment opportunities for jobseekers and is accredited by City and Guilds Centre for training.
- 3.51 We are looking to build on the success of these two schemes, by continuing to develop new social enterprise partnerships. Most recently, we have supported the establishment of a PC refurbishment business based on the bike project model.
- 3.52 In response to the Government's current devolution agenda, the Council has actively engaged with other councils across Surrey, East Sussex and West Sussex to explore the opportunities that this presents. We will continue this engagement to ensure that any devolution deal maximises the benefits for our residents.

**4. REVIEW OF EFFECTIVENESS**

- 4.1. The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and by comments made by the external auditors and other review agencies and inspectorates.
- 4.2. Internal Audit has conducted an ongoing review of the Council's Corporate Governance processes and carried out audits according to the annual Audit Plan, which was approved by the Corporate Management Team, and the Corporate Governance and Standards Committee. We base the Audit Plan on a risk assessment that provides guidance as to the frequency of audits. It covers four main themes (Financial Control, Asset Management, Management Control and ICT) specifically to address the main concerns of corporate governance.
- 4.3. Internal Audit has produced an annual report on Corporate Governance, which is an assessment of corporate governance against CIPFA guidelines. They also review standards of internal control including risk and performance management. The overall conclusion is that the system of Internal Control at Guildford Borough Council for the period to 31 March 2016 was sound.
- 4.4. We have used all of this activity to inform the Annual Governance Statement.
- 4.5. We have a Corporate Governance Group that meets quarterly to discuss any governance issues or concerns. The group comprises the Managing Director (as Head of Paid Service), either the Head of Financial Services or Principal Accountant for financial management and projects (as deputy Chief Financial/S151 Officers), the Director of Corporate Services (as Monitoring Officer), the Audit and Performance Manager and the Democratic Services Manager. From June 2016, this group will report, through Statutory Officer reports, to the Corporate Governance and Standards Committee on current issues.
- 4.6. We also have an Information Security Risk Group to review the Council's information governance and have appointed a senior manager as the Senior Information Risk Owner who is working with a group of officers to improve information security.
- 4.7. The Corporate Governance and Standards Committee receive reports on progress against the audit plan, activities and findings of Internal Audit, risk management, health and safety, equalities, treasury management, ethical standards, Ombudsman complaints and progress against audit recommendations. It also receives interim and annual reports from Grant Thornton, the Council's external auditors, and is responsible for approving the Council's Statement of Accounts.

**5. INTERNAL AUDIT STATEMENT**

During 2015-16, internal auditors completed 87 per cent of the audit plan. The shortfall was the result of a number of unplanned audits, which were requested by managers. There were six audits in progress at the end of the year on which we have not yet given an opinion but there are no indications so far of any material or significant issues arising from this work, which would affect this statement. The table below shows assurance levels of the work carried out in the year to 31 March 2015:

**Assurance Rating**

**Number of Audits**

Substantial	16	18%
Reasonable	41	47%
Limited	3	3%
No Assurance	0	0%
No Opinion (one-off projects)	9	10%
Ongoing (Inc. fundamental service reviews)	14	16%
Carried over to 2016-17	4	4%

- 5.2 Where appropriate the audit report provides management recommendations designed to address weaknesses in the system of internal control. We report the outcomes of these audits to the Corporate Governance and Standards Committee every six months giving councillors an opportunity to understand the Council’s compliance with key controls and to discuss any areas of concern with the auditors. We also update councillors on the progress of recommendations.
- 5.3 The Council has very high levels of assurance in respect of all its main financial systems and its governance arrangements. The main financial systems, tested in 2015-16 and which feed into the production of the Council’s financial statements, achieved substantial or reasonable assurance levels following internal audit reviews.
- 5.4 Each year the Head of Internal Audit, provides an opinion on the Council’s assurance and control framework in her Annual Opinion Report April 2015 to March 2016.

**6. SIGNIFICANT GOVERNANCE ISSUES**

- 6.1. This year has been a period of change and there have been ongoing financial pressures. Despite this challenging environment, there have been significant achievements and continuing improvement in the Council’s overall governance arrangements. Where we have identified areas for further improvement we will take the necessary action to implement changes that will further develop our governance framework.
- 6.2. During 2015-16, we carried out a review of taxi-licensing fees following a history of previous challenges to the accounts and the fees. The review included the data and calculations on which the fees are based. The data quality review found that there were some errors in the methodology and a formula error which changed the fees. Where the need for improvement have been identified they will be actioned by the Licensing team.
- 6.3. Following a problem with premises licensing in 2014-15 we started a review of the controls and reconciliation processes on all income streams across the Council. The initial review found that not all fees and charges had been agreed and authorised by Council and some were not included fees register. There was another issue with a lease where we found that for a number of years we had not recovered the utility costs from the leaseholder. This is now being rectified. This is

Agenda item number: 5

Appendix 1

an on-going review and forms part of a larger project to identify all income, fees and charges and the true cost of the services. The objective is to create an income map which will not only strengthen our financial governance but which can be used to inform future business decisions.

- 6.4. In 2015-16 there was one fraud investigation which is currently under police investigation. Although it was disappointing that it occurred the problem was quickly identified through our monitoring and reconciliation controls.
- 6.5. The Council is not fully compliant with the requirements under the Local Government Transparency Code 2015 for the publication of data, which the code mandates 'must be published'. The Council publishes a majority, rather than all, of the data and is currently unable to meet the requirements for publication of procurement and contract information. The Council recognises the need to improve its transparency by publishing the remaining data and improving the accessibility of the data on its website. The Monitoring Officer has commissioned an internal audit review of the Council's compliance with the Transparency Code and to develop an action plan for full compliance which will be implemented by the corporate procurement advisory panel. Internal Audit will report their findings during 2016-17.
- 6.6. Due to measures introduced last year, the Council's performance in dealing with FoI requests has continued to improve steadily. The overall performance for 2015 was 81% (up from 69% in 2014) which is below the target performance level set by the ICO of 85%. The Council is in the process of implementing a new FOI case management system which is expected to support continued improvements. Further information is set out in the Council's annual report on Compliance with Information Rights.
- 6.7. The Openness of Local Government Bodies Regulations, adopted in August 2014, and The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 place a requirement on Councils to publish on its website and make available to the public for inspection, reports on decisions taken under authority delegated to Officers or Councillors, where the effect of the decision is to:
- (a) grant a permission or license;
  - (b) affect the rights of an individual;
  - (c) award a contract or incur expenditure, which in either case, materially affects the Council's financial position.

The Council's process for recording decisions taken under delegated authority is not consistently applied across all services, there is no central library of such decisions and the decisions themselves are not currently reported to a committee of the Council. Where decisions have been properly documented, they are available for public inspection on request; however, the Council does not currently publish delegated decisions on its website. The Corporate Governance Group are reviewing the process for documenting decisions made under delegated authority and will consider how to provide this information on our website and report it to a relevant Committee in future.

- 6.8. As outlined in paragraph 3.19, the Corporate Governance and Standards Committee is the responsible committee for ensuring ethical standards at the Council, however, its work programme on ethical standards has traditionally been reactive. Officers consider that there is scope to provide the committee with a proactive work programme and that decisions relating to ethical standards, made by the Monitoring Officer under delegated authority within the Council's constitution should be reported to the Committee in line with paragraph 6.8. This will be included in the proposed new statutory officer reports to the corporate governance and standards committee to be introduced in 2016-17.
- 6.9. Following receipt of a valid petition, the Council will be holding a referendum on 13 October 2016 on whether it should be run in a different way and adopt a directly elected mayor and cabinet form of governance. As a result, the Council is drawing up proposals on how such a form of governance would operate in the event that it is approved in the referendum. The possible change to an elected mayor form of governance will mean a significant change in the Council's governance arrangements.

**7. ASSURANCE SUMMARY**

- 7.1. Good governance is about running things properly. It is the means by which the Council shows it is taking decisions for the good of the people of our area in an equitable and open way. It recognises the standards of behaviour that support good decision-making: collective and individual integrity, openness and honesty. It is the foundation for the delivery of good quality services and fundamental to showing that public money is well spent.
- 7.2. From the review, assessment and monitoring work undertaken and the ongoing work of internal audit we have reached the opinion that overall key systems are operating soundly and that there are no fundamental control weaknesses.
- 7.3. We confirm, to the best of our knowledge and belief, that this statement provides an accurate and fair view.

SIGNED: .....  
Leader of the Council on behalf of Guildford Borough Council

SIGNED: .....  
Managing Director on behalf of Guildford Borough Council

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**Guildford Borough Council**  
**Head of Internal Audit Annual Opinion**  
**1 April 2015 to 31 March 2016**

**1. Introduction**

- 1.1 It is the duty of the Head of Internal Audit to give an opinion, at least annually, on the adequacy and effectiveness of the system of internal control. This is based on the standard of control observed from internal audits, which have been carried out in accordance with the annual Audit Plan and other advice work on control systems. The results of our investigation work and the work of other internal and external reviews also informs my opinion.
- 1.2 My opinion on the adequacy and effectiveness of internal control informs and should be read alongside the Annual Governance Statement, which is incorporated into the Council's Statement of Accounts.
- 1.3 Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, internal control and governance by evaluating its effectiveness in achieving the organisation's objectives.
- 1.4 An effective internal audit service is critical in delivering the Council's strategic objectives by:
1. Championing best practice in governance,
  2. Objectively assessing the adequacy of governance and management of existing risks,
  3. Commenting on responses to emerging risks and proposed developments; and
  4. Giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.
- 1.5 It objectively examines, evaluates and reports on the adequacy of the governance and control environment as a contribution to the proper, economic and effective use of resources. The control environment comprises the organisation's policies, procedures and operations in place to:
1. Establish, and monitor the achievement of, the organisation's objectives.
  2. Identify, assess and manage the risks to achieving the organisation's objectives.
  3. Facilitate policy and decision making.
  4. Ensure the economical, effective and efficient use of resources.
  5. Ensure compliance with established policies, procedures, laws and regulations.
  6. Safeguard the organisation's assets and interests from losses of all kind, including those arising from fraud, irregularity or corruption.
- 1.6 One of the main aims of the internal audit team is to provide assurance on the Council's overall system of internal control. This is achieved in part through the delivery of the annual audit plan which is designed to:
1. Satisfy the requirements of the Corporate Governance and Standards Committee
  2. Ensure the delivery of a programme of audits on a risk based needs assessment.

Agenda item number: 5  
Appendix 2

3. Support the Managing Director as the Responsible Financial Officer and S151 Officer in discharging her statutory duties.

## 2. Assurance on Internal Control

- 2.1 To quantify my opinion on the adequacy of internal control, I have collated the assurance ratings based on for the outcome of each review undertaken in 2014-15. The results are shown in the table below.

Levels of Audit Assurance:

	Assurance Rating	Assurance Criteria
1	Substantial	Assurance that the controls are suitably designed consistently applied and effective
2	Reasonable	Assurance that the controls are suitably designed consistently applied and effective but we have identified issues that if not addressed, increase the likelihood of risk materialising in this area
3	Limited	Some assurance that the controls are suitably designed and effective but inconsistently applied and action needs to be taken to ensure risks in this are managed
4	No Assurance	Fundamental control weaknesses that need immediate action
5	No Opinion	Results of one-off investigations or consultancy work

- 2.2 In 2015-16 we completed 84 per cent of the audit plan. There were 11 unplanned reviews which accounted for the shortfall. There were seven audits in progress at the end of the year on which we have not given an opinion, however in the work carried out so far there is no indication of any material or significant issues arising from this work that affect this statement. The results of the work carried out in the year to 31 March 2015 are shown below:

Assurance Rating on Productive Audit Work	No. of Audits	
Substantial	16	18%
Reasonable	41	47%
Limited	3	3 %
No Assurance	0	0%
No Opinion (one-off projects)	9	10%
In Progress (inc. FSR and Lean reviews)	14	16%
Deferred to 2016-17	4	4%
Total audit coverage	87	

- 2.3 The Internal Audit work programme is based on a risk assessment, which is updated after each audit. In 2015-16, there was evidence of sound controls and with the exception of a small number of medium risks, I can give substantial assurance on our major financial systems.
- 2.4 The Council has very high levels of assurance in respect of all the main financial systems and majority of its governance arrangements. All of the main financial systems that feed into the Council's financial statements have achieved substantial or reasonable assurance following the audit reviews. None of the control weaknesses found in the audits represent a significant or material risk to the Council.

- 2.5 There are no specific governance, risk management and internal control issues of which Internal Audit have been made aware during the year, which cause any qualification of the above opinion. The main issue and priority from an audit perspective, as recognised by management, is that the Council sustains and completes the programme of transformational change and embeds improvement across the Council whilst maintaining service delivery and the effective operation of key controls.
- 2.6 The key governance, risk management and internal control areas where I consider good progress has been made and which are integral to continued improvement are:
1. performance management of our progress against the Corporate Plan with a reporting schedule to Corporate Management Team, Scrutiny and Executive
  2. further consultation with the community on the Local Plan including emphasis on hard to reach groups
  3. continuing work to improve our consultation processes
  4. increased customer focus through more efficient and outward facing service delivery
  5. a transformation programme including a programme of fundamental service reviews which will cover all services
  6. channel shift by transferring front line administrative work and queries into the Customer Service Centre therefore releasing resources within the service to concentrate on professional and technical activities
  7. improved information security framework and the proposal to appoint data managers within each service
  8. peer review of our emergency planning process which will result in closer ties between the Council and external agencies
  9. a rolling programme of data protection training sessions for staff
  10. continuing training for staff on programme and project management
  11. improved focus and governance on procurement
  12. the introduction of Project Aspire which aims to empower and improve the lives of the most disadvantaged in our community.
  13. greater governance over procurement with the introduction of a new strategy and Corporate Procurement Advisory Panel.
- 2.7 During 2015-16 we started a significant piece of work to map all of the Council's income streams. This will provide the Council with a comprehensive overview of all income systems and identify synergies and areas for improvement. We have carried out work on the methods and systems for income collection, monitoring and reconciliation. This will provide the Council with a complete overview and highlight synergies and areas for improvement.
- 2.8 As a result of the income mapping we identified improvements in the governance of fees and charges, identified areas for improvement in leases and increased the use of the corporate debtors service. These have resulted in a better control environment and improved efficiency and effectiveness. There were no significant control or governance implications and overall the systems, controls on income are satisfactory.
- 2.9 As part of our remit we carried out a data quality review of the taxi licence fees to ensure that the fees were based on sound data. The review found that there were inconsistencies within the data calculation that resulted in amendments to the fees that were set. This is an area that is under review and there will be a full data quality check in 2016-17.

Agenda item number: 5  
Appendix 2

- 2.10 We have continued to provide training to staff on project and programme management to embed this within the organisation. This will be an on-going exercise.
- 2.11 In 2015-16 we had one instance of a financial irregularity where money was not banked and the normal management controls were circumvented. While this is disappointing the loss was identified during the normal reconciliation procedures within Financial Services and the control framework worked as intended. Internal Audit carried out an investigation and the matter has been referred to the police.
- 2.12 There have been continuing changes over the last year with the focus on transformation and re-organisation of some major services. We recognise that risk always increases in times change but there is no evidence that where changes have taken place or are planned there are any control issues.
- 2.13 In a Council of Guildford's size and complexity, with its significant change agenda and the on-going financial pressures, there is a greater risk of breakdown of control particularly where roles and systems are changing. We have worked actively with management to identify and examine these areas of potential risk. Where audit work has highlighted areas for improvement recommendations have been made to address any control implications. Overall, internal audit considers that appropriate actions are being taken to address recommendations but will continue to monitor and report progress.
- 2.14 There were a number of service requests for work which was not on the audit plan and although there is always a contingency budget the work exceeded the budget, therefore, the work undertaken during the period focussed on covering the high risk areas in order to provide assurance on the Council's overall system of internal control.
- 2.15 I can therefore provide substantial assurance that the Council's systems of governance, risk management and internal control in operation until 31 March 2016 were generally sound and operate consistently across departments.

Joan Poole

Chief Internal Auditor

Corporate Governance and Standards Committee Report

Ward(s) affected: all

Report of Chief Finance Officer

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Date: 16 June 2016

## Treasury management annual report 2015-16

### Executive Summary

Treasury management is the control and management of the Council's cash, regardless of its source. It covers management of the daily cash position, investments and borrowing.

It is defined as "the management of the council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks"

The Chartered Institute of Public Finance and Accountancy (CIPFA) publish a 'treasury management code of practice' and a 'Prudential Code for Capital Finance in Local Authorities' which require us to set Prudential and Treasury indicators. CIPFA also requires us to report on treasury management activity and compliance with Prudential Indicators.

The objectives of the prudential code, and the indicators calculated in accordance with it, is to provide a framework for local authority capital finance that will ensure:

- capital expenditure plans are affordable
- all external borrowing is within prudent and sustainable levels
- treasury management decisions are taken in accordance with professional good practice and
- in taking the above decisions, the council is accountable by providing a clear transparent framework.

The Council's cash balances have built up over a number of years, and reflect our strong balance sheet, with considerable revenue and capital reserves. Officers carry out this function within the parameters set by the Council each year in the treasury management strategy statement (TMSS). As at 31 March 2016, the Council held £144 million in investments.

The Council considers, security, liquidity and yield when making investment decisions. The most important part of making investments is the security of capital – ensuring we get our money back. Next, we consider liquidity – getting our money back when we need it. Once we are comfortable with both the security and liquidity of the investment, we review the return on the investment.

For borrowing, we borrow short-term from other local authorities for cash flow purposes and ensure there is no cost of carry on this. We undertake longer-term borrowing in line with our liability benchmark and the capital programme. We took out a small loan from another local authority at the beginning of the year. The Council had £238 million borrowing at 31 March 2016.

This report (section 8) confirms that the Council complied with its prudential indicators, treasury management policy statement and treasury management practices (TMPs) for 2015-16. The policy statement is included and approved as part of the TMSS, and the TMPs are approved under delegated authority.

The treasury management performance over the last year, compared to estimate, is summarised in the table below. The report highlights the factors affecting this performance throughout the report, and in **Appendix 1**.

	<b>Estimate %</b>	<b>Actual %</b>	<b>Estimate (£000)</b>	<b>Actual (£000)</b>
General fund Capital Financing Requirement (CFR)			69,583	39,784
Housing Revenue Account CFR			196,664	196,664
<b>Total CFR</b>			<b>266,247</b>	<b>236,448</b>
Return on investments	1.21	1.13	1,130	1,739
Interest paid on external debt		2.26	5,519	5,470
<b>Total net interest paid</b>			<b>4,389</b>	<b>3,731</b>

There was slippage in the capital programme, which resulted in a lower CFR than estimated.

Interest paid on debt was lower than budget, due to the variable loan rate being reset lower than expected.

The yield returned on investments was lower than estimated, but the interest received (return on investments) was higher due to more cash being available to invest in the year – a direct result of the capital programme slippage.

All of the above was included in the projected outturn position when reported to councillors during the year.

For detailed information on the return on investments, and interest paid on external debt can be found in section 7 of the main report.

This report will also be considered by the Executive at its meeting on 28 June 2016.

**Recommendation to Council (26 July 2016)**

The Committee is asked to comment on the following recommendation to Council:

- (1) That the treasury management annual report for 2015-16 be noted.
- (2) That the actual prudential indicators reported for 2015-16, as detailed in **Appendix 1** to this report, be approved.

Reason for Recommendation:

To comply with the Council's treasury management policy statement, the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on treasury management and the CIPFA Prudential Code for Capital Finance in Local Authorities.

**1. Purpose of Report**

- 1.1 The Local Government Act 2003 states that the Council has a legal obligation to have regard to both the CIPFA code of practice on treasury management and the CLG investment guidance.
- 1.2 The CIPFA treasury management code of practice required public sector authorities to produce an annual treasury management strategy, and as a minimum, report to councillors on treasury activity mid-year and after the year-end.
- 1.3 This report covers the activity of the treasury management function in 2015-16. It also covers the requirement to report on the prudential and treasury indicators for the year.
- 1.4 The Council borrows and invests substantial sums of money and is, therefore, exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risks.
- 1.5 Treasury management is a highly complex, technical and regulated aspect of local government finance. We have included a glossary of technical terms (**Appendix 8**), to aid the reading of this report.

**2. Strategic Priorities**

- 2.1 Treasury management is a key function in enabling the Council to achieve financial excellence and value for money. It underpins the achievement of all the Corporate Plan 2015-2020 themes, in particular Your Council – ensuring long-term financial stability and sound financial governance.
- 2.2 This report details the activities of the treasury management function and the effects of the decisions taking in the year in relation to the best use of its resources.

### 3. Background

3.1 Treasury management is defined by CIPFA as:

*“the management of the councils’ 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”*

3.2 The Council has responsibility for treasury management. Treasury management contains a number of risks. The effective identification and management of those risks are integral to the Council’s treasury management objectives, as is ensuring that borrowing activity is prudent, affordable and sustainable.

3.3 The Council has a statutory requirement, under the Local Government Act 2003, to adopt the CIPFA Prudential Code and produce prudential indicators. A requirement of the prudential code is the adoption of the CIPFA treasury management code of practice and the treasury management policy statement (included as an appendix to the annual treasury management strategy statement).

3.4 The objectives of the prudential code are to ensure, within a clear framework, that capital investment plans are affordable, prudent and sustainable, and the treasury management decisions are taken in accordance with good professional practice.

3.5 The council has adopted the revised CIPFA treasury management code of practice. It operates its treasury management function in compliance with this Code and the statutory requirements.

3.6 This annual report, and the appendices attached to it, set out:

- a summary of the economic factors affecting the approved strategy and counterparty updated (sections 4 and 5 with details in **Appendix 4**)
- a summary of the approved strategy for 2015-16 (section 6)
- a summary of the treasury management activity for 2015-16 (section 7 with detail in **Appendix 1**)
- compliance with the treasury and prudential indicators (section 8 with detail in **Appendix 1**)
- risks and performance (section 9)
- Minimum Revenue Provision (MRP) (section 10)
- details of external service providers (section 11)
- details of training (section 12)

### 4. Economic Environment

4.1 This section includes a summary of the economic environment for 2015-16, to show the treasury management activity in context. **Appendix 4** contains more detail.



- 4.2 The UK economy slowed with GDP growth falling to 2.3% from a robust 3% the year before.
- 4.3 CPI inflation hovered around 0% with deflationary spells in April, September and October. Low inflation was due to the extremely low oil prices, the appreciation of sterling since 2013 pushing down import prices and weaker than expected wage growth resulted in subdued unit labour costs.
- 4.4 The slowdown in the Chinese economy became the largest threat to prospects for global growth. Chinese authorities intervened in the currency and equity markets, and the effects were only temporary which led to high market volatility. There were falls in prices of equities and risky assets and a widening in corporate credit spreads.
- 4.5 Between February and March 2016, sterling had depreciated by around 3%, a significant proportion of the decline reflecting the uncertainty surrounding the referendum result.
- 4.6 The Bank of England Monetary Policy Committee (MPC) made no change to policy, maintaining the Bank Rate at 0.50% and asset purchases (Quantitative Easing) at £375 billion.
- 4.7 The market reaction to the overall economy was that from June 2015, gilt yields were driven lower by a weakening in Chinese growth, the knock on effects of the fall in its stock market, the continuing fall in the price of oil and commodities and acceptance of diminishing effectiveness of central bankers' unconventional policy actions. Added to this was the heightened uncertainty surrounding the outcome of the UK referendum on its continued membership of the EU as well as the US presidential elections which culminated in a significant volatility particularly in equities and corporate bond yields.

## **5. Counterparty update**

- 5.1 This section details the changes in the counterparties on the Council's lending list during the year.
- 5.2 Two European Union directives became UK legislation, which placed the burden of rescuing failing UK banks disproportionately onto unsecured institutional investors which include local authorities and pension funds.
- 5.3 During the year, all three credit rating agencies reviewed their ratings to reflect the loss of government support for most financial institutions and the potential for loss given default as a result of new bail-in regimes in many countries. Despite reductions in government support, many institutions saw upgrades due to an improvement in their underlying strength and an assessment that the level of loss given default is low.
- 5.4 Fitch reviewed the credit ratings of multiple institutions in May. Most UK banks had their support rating revised from 1 (denoting an extremely high probability of

- support) to 5 (denoting external support cannot be relied upon). This resulted in the downgrade of the long-term ratings of Royal Bank of Scotland (RBS), Deutsche Bank, Bank Nederlandse Gemeeten and ING. JP Morgan Chase and the Lloyds Banking Group, however, both received one notch upgrades.
- 5.5 Moody's concluded its review in June and upgraded the long-term ratings of Close Brothers, Standard Chartered Bank, ING Bank, Goldman Sachs International, HSBC, RBS, Coventry Building Society, Leeds Building Society, Nationwide Building Society, Svenska Handelsbanken and Landesbank Hessen-Thuringen.
- 5.6 S&P reviewed UK and German banks in June, downgrading the long-term ratings of Barclays, RBS and Deutsche Bank. As a result, the Council suspended Deutsche Bank as a counterparty for new unsecured investments. S&P also revised the outlook of the UK as a whole from stable to negative, citing concerns around the EU referendum and its effect on the economy.
- 5.7 National Australis Bank (NAB) announced its plans to divest Clydesdale Bank, its UK subsidiary. NAB listed Clydesdale on the London Stock Exchange and transferred ownership to NAB's shareholders. Following the demerger, Fitch and Moody's downgraded the long and short-term ratings of the bank.
- 5.8 At the end of July 2015, Arlingclose advised an extension of recommended durations for unsecured investments in certain UK and European institutions following improvements in the global economic situation and the receding threat of another Eurozone crisis. A similar extension was advised for some non-European banks in September, with the Danish Danske Bank being added as a new recommended counterparty and certain non-rated UK building societies being extended.
- 5.9 In September, Volkswagen (VW) was found to have been cheating emissions tests over several years in many of their diesel vehicles. Arlingclose recommended suspending VW (as a non-financial corporate bond counterparty) for new investments. As issues around the scandal continued, there were credit rating downgrades across the VW group by all rating agencies.
- 5.10 In December, the Bank of England released the results of its latest stress tests on the seven largest UK banks and building societies which showed that RBS and Standard Chartered were the weakest performers. However, the regulator did not require either bank to submit revised capital plans, since both firms had already improved their capitalisation ratios over the year.
- 5.11 In January 2016, Arlingclose supplemented its existing investment advice with a counterparty list of high quality bond issuers, including recommended cash and duration limits.
- 5.12 Interest rates are likely to stay lower for longer, and with large cash balances, it makes long-term bonds an attractive option.
- 5.13 The first quarter of 2016 was characterised by financial market volatility and a weakening outlook for global economic growth. In March 2016, following the

publication of many banks' 2015 full year results, Arlingclose advised the suspension of Standard Chartered Bank for unsecured investments. Standard Chartered has also seen various rating actions taken against it by the rating agencies and a rising CDS level throughout the year.

- 5.14 The end of bank bail-outs, the introduction of bail-ins, and the preference being given to large numbers of depositors other than local authorities means that the risks of making unsecured deposits continues to be elevated relative to other investment options. The council therefore increasingly favoured secured investment options or diversified alternatives, such as covered bonds and non-bank investments over unsecured bank and building society deposits.

## 6. Approved strategy for 2015-16 – a summary

- 6.1 Council approved the treasury management strategy for 2015-16 in February 2015.
- 6.2 The strategy showed an underlying need to borrow in 2015-16 for the General Fund (GF) capital programme of £149.95 million.
- 6.3 The strategy set out how we would manage our cash. It allowed for internally managed investments for managing cash flow and externally managed and longer-term investments for our core cash (cash not required in the short or medium term).
- 6.4 It highlighted the need to further diversify our investment portfolio to reduce credit risk. The approved strategy set the minimum long-term credit rating of A- (or equivalent) for investments in counterparties using the lowest denominator principal for the three main credit rating agencies.

## 7. Treasury management activity in 2015-16

- 7.1 The treasury position at 31 March 2016, compared to the previous year is:

		31 March 2015 (£'000)	Average Rate	31 March 2016 (£'000)	Average Rate
Fixed Rate Debt	PWLB	148,815	3.23%	148,585	3.23%
	Market	0	0.00%	0	0.00%
Variable Rate Debt	PWLB	45,000	0.56%	45,000	0.70%
	Market	0	0.00%	0	0.00%
Long-term	LAs	5,000	1.50%	10,000	1.35%
Temporary borrowing	LAs	15,000	0.33%	34,500	0.46%
<b>Total Debt</b>		<b>213,815</b>	<b>2.50%</b>	<b>238,085</b>	<b>2.26%</b>
Fixed Investments		(72,146)	0.66%	(88,452)	0.84%
Variable Investments		(25,152)	0.59%	(34,793)	0.61%
Externally managed		(16,590)	3.39%	(21,538)	3.38%
<b>Total Investments</b>		<b>(113,888)</b>	<b>1.03%</b>	<b>(144,782)</b>	<b>1.13%</b>
<b>Net Debt / (Investments)</b>		<b>99,927</b>		<b>93,303</b>	

- 7.2 PWLB is the Public Works Loans Board and is a statutory body operating as an executive of HM Treasury. Its function is to lend money from the National Loans Fund to local authorities and other prescribed bodies.
- 7.3 The above table shows investments have increased by £30.89 million and loans by £24.27 million. Therefore, net debt has reduced by £6.6 million. Part of the increase in investments is the increase in short-term borrowing (£19.5 million) and the remainder of £11.39 million is simply due to more cash.
- 7.4 We budgeted a return of 1.21% for 2015-16 and achieved 1.13%. Our return is lower because we had budgeted for a small increase in investment rates due to a rise in base rate which did not happen.
- 7.5 The Council's budgeted investment income was £1.13 million, and actual interest was £1.74 million (£610,000 higher). We had been projecting higher interest receipts throughout the financial year. This is because we had more cash available to invest than we had budgeted. Our external funds returned £164,000 more than budgeted, and cash investments the £446,000.
- 7.6 Our budgeted debt interest payable was £5.519 million. £5.25 million relates to the HRA. The outturn was £5.47 million (5.172 million for the HRA). Higher short-term loan interest of £30,000 was offset by increased investment income.
- 7.7 All our external funds are distributing funds, and they achieved an overall weighted average return of 3.38%, split as:

<b>Fund</b>	<b>Balance at 31 March £000</b>	<b>Average return</b>	<b>Type of fund</b>
M&G	2,025,718	3.22%	Equity focussed
Schroders	823,518	6.84%	Equity focussed with at least 80% on FTSE all share companies
SWIP	1,797,729	1.36%	Fixed income focussed
Funding Circle	653,109	10.00%	Investments in SMEs up to a max of £2,000
UBS	2,349,432	2.82%	Multi asset
City Financials	2,335,036	0.68%	Multi asset
Payden	4,999,920	0.88%	Cash plus
CCLA	6,553,160	6.13%	Property

- 7.8 Our external fund portfolio is now very diverse and we invest in a range of products and markets. The capital value of the funds can go up as well as down. Across all funds, there was a capital loss of £52,100. The CCLA property fund increased over the year by £371,000, the rest suffered overall losses for the year due to the difficult global economic conditions.

*Capital programme*

- 7.9 The actual underlying need to borrow for the GF capital programme was £9.768 million, which is lower than budgeted of £38.68 million because of slippage in the capital programme. We will continue to support service managers with the scheduling of schemes in the capital programme to ensure it is kept up to date when project timescales change.

- 7.10 The amount of internal borrowing actually undertaken was £9.768 million. The Council must charge a Minimum Revenue Provision (MRP) on its internal borrowing which is setting aside cash from council tax to repay the internal borrowing. MRP charged to the revenue account in 2015-16 was £294,545, against an original budget of £506,333.
- 7.11 Our overall underlying need to borrow, as measured by the Capital Financing Requirement (CFR) was £236.448 million.

**Benchmarking and performance indicators**

- 7.12 The Council is a member of the CIPFA treasury management benchmarking club.
- 7.13 Arlingclose also provide benchmarking data across their clients. It highlights the effect of changes in our investment portfolio and compares on the basis of size of investment, length of investment and the amount of credit risk taken.
- 7.14 The benchmarking shows a snapshot of our average running yield on all investments, also split between internally managed and externally managed. The latest benchmarking data (at 31 March 2016), shows our average rate of investments for our total portfolio as being 0.94% against the client universe of 0.96%. The table shows that we have outperformed our internally managed investments by quite some margin.

	Internally managed	Externally managed	Total portfolio
Guildford	0.90%	2.88%	0.94%
Client Universe	0.71%	3.15%	0.96%

- 7.15 The difference in our return as part of the benchmarking and our own return is due to a different calculation in the way Arlingclose put the benchmarking return together.
- 7.16 Arlingclose have commented on our portfolio:

*“Guildford has a widely diversified investment portfolio, which has enabled it to reduce its treasury risks at the same time as enhancing returns. Credit risk is below average for our local authority clients, liquidity is adequate but not excessive, and returns are above average. Strategic investments in corporate bonds, covered bonds and pooled funds have added around £100,000 to annual investment income”*

- 7.17 We set our own performance indicators:

Indicator	Target	Actual	Variance
Cashflow investment returns above base rate	0.26%	0.19%	-0.07%
Long-term investment returns above base rate	0.35%	0.74%	0.39%
Externally managed funds above base rate	2.71%	2.88%	0.17%
Combined funds above base rate	0.71%	0.63%	-0.08%
% of daily balances within the range +/- £50,000	70.00%	74.50%	4.50%
The daily current account bal to be +/- £50,000	+/-£50,000	<b>-£2,878</b>	

7.18 Overall performance was just under target in terms of yield.

7.19 The council's daily bank balance target was +/- £50,000 for 70% of days. The average balance in the year was £2,878 overdrawn and 74.5% of days were +/- £50,000, so we were well within our target.

## **8. Compliance with treasury and prudential indicators**

8.1 The CIPFA prudential code and treasury management code of practices require local authorities to set treasury and prudential indicators.

8.2 The objectives of the Prudential Code, and the indicators calculated in accordance with it, provide a framework for local authority capital finance that will ensure

- capital expenditure plans are affordable
- all external borrowing and other long-term liabilities are within prudent and sustainable limits
- treasury management decisions are taken in accordance with professional good practice and
- in taking the above decisions, the council is accountable by providing a clear transparent framework

8.3 The prudential code requires the council to set a number of prudential indicators for the following and two subsequent financial years, and to monitor against the approved indicators during the year. We can revise these indicators during the year but need full Council approval.

8.4 Officers can confirm that the council has complied with its prudential indicators for 2015-16 (see **Appendix 1** for the outturn figures), its treasury management policy statement and its treasury management practices.

8.5 Section 6 outlines the approved treasury management strategy. We have adhered to the strategy by:

- financing of capital expenditure from government grants, usable capital resources, revenue contributions and cash flow balances rather than from external borrowing
- taking a prudent approach in relation to the investment activity in the year, with priority given to security and liquidity over yield
- maintaining adequate diversification between counterparties
- forecasting and managing cash flow to preserve the necessary degree of liquidity

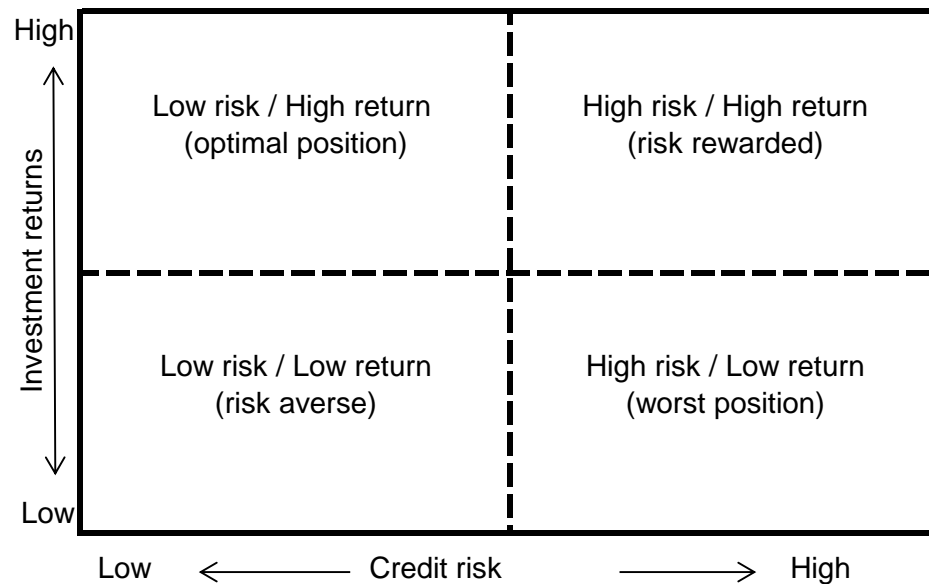
## **9. Risk and performance**

9.1 The Council considers security, liquidity and yield, in that order, when making investment decisions.

- 9.2 The Council has complied with all the relevant statutory and regulatory requirements, which limit the level of risk associated with its treasury management activities. In particular, its adoption and implementation of both the prudential code and treasury management code of practice means our capital expenditure is prudent, affordable and sustainable, and our treasury practices demonstrate a low risk approach.
- 9.3 Short-term interest rates and likely movements in these rates, along with our projected cash balances, determine our anticipated investment return. These returns can be volatile and whilst, loss of principal is minimised through the annual investment strategy, accurately forecasting future returns can be difficult.
- 9.4 We set a target return of 1.21% and returned 1.13%. This shows that we did not increase the level of risk taken over what we had budgeted for.
- 9.5 If the Council were to lose any of its investments, the GF will carry the loss, even if the cash lost is HRA cash. Therefore, to compensate the GF for this, we apply a credit risk adjustment to the rate of interest we apply on the HRA balances and reserves. Therefore, a lower interest rate is applied than the weighted average investment return for the year.
- 9.6 The Council invests in externally managed funds. These are more volatile than cash investments, but can come with a higher return. Officers continually review our funds to ensure they still have a place in the portfolio. We view most of our funds over a three to five year time horizon to take account of their potential volatility – they are not designed to be short-term investments, despite being able to get the money from them quickly.

**Credit developments and credit risk management during the year**

- 9.7 Security of our investments is our key objective when making treasury decisions. We therefore manage credit risk through the limits and parameters we set in our annual treasury management strategy. One quantifiable measure of credit quality we use is to allocate a score to long-term credit ratings. **Appendix 6** explains the scoring in more detail.
- 9.8 This is a graphical representation used in the Arlingclose benchmarking.



9.9 Typically we should aim to be in the top left corner of the chart where we get a higher return for lower risk. In the actual benchmarking, for average rate versus credit risk (value weighted) we were above the average of all clients and were in the top left box towards the middle vertical line. For time weighted we are well within the top left box (see **Appendix 3** for the two charts).

9.10 We set our definition of high credit quality as a minimum long-term credit rating of A-, which attracts a score of 7. The lower the score, the higher the credit quality of the investment portfolio.

9.11 The table below shows that at each quarter date, the weighted average score of our investment portfolio, on a value weighted and a time weighted basis is well within our definition of high credit quality, ending the year at 4.14 and 2.56.

Date	Value Weighted Avg Credit Risk Score	Value Weighted Avg Credit Rating	Time Weighted Avg Credit Risk Score	Time Weighted Avg Credit Rating	Average Life (days)
31-03-14	4.38	AA-	2.30	AA+	188
30-06-15	4.49	AA-	2.57	AA	306
30-09-15	4.07	AA-	2.46	AA+	286
31-12-15	3.85	AA-	2.65	AA	280
31-03-16	4.14	AA-	2.56	AA	314

9.12 We have maintained our security throughout the year within the portfolio. We also have a lower risk score on both elements than the Arlingclose client universe. We do, however, have a much longer duration and this is due to the addition of covered bonds in the portfolio, which can be sold on the secondary market if required.



## **10. Minimum Revenue Provision (MRP)**

10.1 The Local Authorities (Capital Financing and Accounting) (England) (Amendment) Regulations 2003 (SI No 414) place a duty on local authorities to make a prudent provision for debt redemption. Making an MRP reduces the Capital Financing Requirement (CFR) and leaves cash available to replenish reserves used for internal borrowing or making external debt repayments. There are three options for applying MRP available to us:

- asset life method
- depreciation method
- any other prudent method

10.2 Any other prudent method means we can decide on the most appropriate method depending on the capital expenditure.

10.3 The revised MRP policy was approved by Council in February 2016. It stated that:

- the Council will use the asset life method as its main method, but will use annuity for investment property
- in relation to expenditure on development, we may use the annuity method starting in the year after the asset becomes operational
- where we acquire assets ahead of a development scheme, we will charge MRP based on the income flow of the asset or as service benefit is obtained, and will not charge MRP during construction, refurbishment or redevelopment
- where expenditure is incurred pending receipt of an alternative source of finance we will not charge MRP
- we will use 75-years for freehold land purchased for development purposes, and any new buildings or similar structures on that land
- where loans are made to other bodies for their capital expenditure, no MRP will be charged
- we will apply a 100-year life for investments in shares classed as capital expenditure

10.4 The unfinanced capital expenditure in 2015-16 of £9.768 million related mainly to investment property purchase and MRP will be applied as approved above.

## **11. External service providers**

11.1 The Council reappointed Arlingclose as our treasury management advisors in March 2015. The contract is for a period of 7 years. The Council is clear what services it expects and what services Arlingclose will provide under the contract.

11.2 The Council is clear that overall responsibility for treasury management remains with the Council.

## **12. Training**

- 12.1 CIPFA's revised treasury management code of practice suggest that best practice is achieved by all councillors tasked with treasury management responsibilities, including scrutiny of the treasury management function, receiving appropriate training relevant to their needs and they that should fully understand their roles and responsibilities.
- 12.2 The DCLS's revised investment guidance also recommends that a process is in place for reviewing and addressing the needs of the council's treasury management staff for training in investment management.
- 12.3 Following the revised CIPFA code of practice and the stated requirement that a specified body be responsible for the implementation and regular monitoring of the treasury management policies, we set up a Treasury Management Panel. The panel met in the year to discuss the treasury management strategy report, the treasury and prudential indicators.
- 12.4 Corporate Governance and Standards Committee will review this annual report at its meeting on 16 June 2016.
- 12.5 Officer training is undertaken on a regular basis, by attending workshops held by Arlingclose, and seminars or conferences held by other bodies, such as CIPFA. On the job training and knowledge sharing are undertaken when required. Those involved in treasury management are either a fully qualified accountant, or AAT qualified. The main post holder responsible for the treasury management function holds the 'Certificate in International Treasury Management for Public Finance' qualification, which is a joint qualification between the ACT (Association of Corporate Treasurers) and CIPFA.
- 12.6 Arlingclose undertook training for councillors in September. It was primarily aimed at those councillors sitting on the Corporate Governance and Standards Committee, but it was open to all councillors who wished to attend.

## **13. Consultations**

- 13.1 Officers have consulted with the Lead Councillor for Finance about the contents of this report.

## **14. Executive Advisory Board comment**

- 14.1 Treasury management reports are under the remit of Corporate Governance and Standards committee and are not required to be presented to an EAB

## **15. Equality and Diversity Implications**

- 15.1 There are no equality and diversity implications

## **16. Financial Implications**

16.1 The detailed financial implications are summarised above and in **Appendix 1**.

## **17. Legal Implications**

17.1 A variety of professional codes, statues and guidance regulate the council's treasury management activities. These are:

- the Local Government Act 2003 ("the Act") provides the powers to borrow and invest. It also imposes controls and limits on these activities
- the Act permits the Secretary of State to set limits on either the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken. The HRA debt cap is the only restriction that applied in 2015-16
- statutory instrument 3146 (2003 ("The SI"), as amended, develops the controls and powers within the Act
- the SI requires the council to undertake any borrowing with regard to the prudential code. The prudential code requires indicators to be set – some of which are limits – for a minimum of three forthcoming years
- the SI also requires the council to operate the treasury management function with regard to the CIPFA treasury management code of practice
- under the terms of the Act, the Government issued "investment guidance" to structure and regulate the council's investment activities. The emphasis of the guidance is on the security and liquidity of investments.

## **18. Human Resource Implications**

18.1 There are no human resource implications arising from this report other than the training discussed in section 12, which is already in place.

## **19. Summary of Options**

19.1 We could have invested in lower credit quality investments, but this would have increased our risk exposure.

19.2 We could have borrowed longer-term for our capital programme, but would have suffered a cost of carry due to the slippage in the programme.

## **20. Conclusion**

20.1 The council has complied with the objectives of the CIPFA treasury management code of practice by maintaining the security and liquidity of its investment portfolio.

20.2 We maintained the security of our investment portfolio, and did not borrow long-term in advance of need.

- 20.3 We have also complied with the requirements of the prudential code by setting, monitoring and staying within the prudential indicators set.

## **21. Background Papers**

- CIPFA Treasury Management in the Public Services – Code of Practice and Cross Sectoral Guidance Notes (2011 edition)
- CIPFA Treasury Management in the Public Services – Guidance Notes for Local Authorities including Police Authorities and Fire Authorities (2011 edition)
- CIPFA the Prudential Code for Capital Finance in Local Authorities (2011 edition)
- CIPFA the Prudential Code for Capital Finance in Local Authorities – Guidance Notes for Practitioners (2013 edition)
- Treasury management annual strategy report 2015-16 and prudential indicators 2016-17 to 2020-21

## **22. Appendices**

- Appendix 1: treasury management activity, treasury and prudential indicators 2015-16
- Appendix 2: schedule of investments at 31 March 2016
- Appendix 3: benchmarking graphs
- Appendix 4: economic background – a commentary from Arlingclose
- Appendix 5: rates
- Appendix 6: credit score analysis
- Appendix 7: credit rating equivalents and definitions
- Appendix 8: background to externally managed funds
- Appendix 9: glossary

## **Treasury management activity, treasury and prudential indicators 2015-16**

### **1. Introduction**

- 1.1 The treasury management service is an important part of the overall financial management of the council. Whilst the prudential indicators consider the affordability and impact of capital expenditure decisions, the treasury service covers the effective funding of these decisions.
- 1.2 Strict regulations, such as statutory requirements and the CIPFA treasury management code of practice (the TM Code) govern the council's treasury activities. We adopted the TM Code on 13 June 2002 and adopted the revised treasury management policy statement in February 2012. This adoption meets the requirement of one of the main prudential indicators.

### **2. Treasury management activity**

- 2.1 The council has an integrated treasury management strategy and manages its cash as a whole in accordance with its approved strategy. Therefore, overall borrowing may arise because of all the financial transactions of the council (for example, borrowing for cash flow purposes) and not just those arising from capital expenditure reflected in the Capital Financing Requirement (CFR).

#### **Investments**

- 2.2 The Department of Communities and Local Government (DCLG) Investment Guidance requires local authorities to focus on security and liquidity rather than yield.
- 2.3 Security of capital remains our main objective when placing investments. We maintained this during 2015-16 by following our investment policy, as approved in our treasury management strategy 2015-16, which defined "high credit quality" counterparties as those having a long-term credit rating of A- or higher.
- 2.4 Investments during the year included:
  - investments in AAA rates constant net asset money market funds
  - call accounts and deposits with banks and building societies systemically important to each country's banking system. We did place some investments with overseas banks
  - other local authorities
  - corporate bonds

- non-rated building societies
- covered bonds
- pooled funds without a credit rating, but only those subject to an external assessment by Arlingclose

2.5 We divided our investments into three types

- short-term (less than one-year) internally managed cash investments
- long-term internally managed investments
- externally managed funds

2.6 Cash balances consisted of working cash balances, capital receipts, and council reserves.

2.7 The table below shows our investment portfolio, at 31 March 2016, compared to 31 March 2015. **Appendix 2** contains a detail schedule of investments outstanding at the end of the year.

Investment details	Balance at 31-03-15 £m	Weighted Avg Return for Year	Balance at 31-03-16 £m	Weighted Avg Return for Year
<b>Internally Managed Investments</b>				
Fixed Investments < 1 year to cover cash flow	50.50	0.64%	47.00	0.68%
Corporate bonds	3.50	0.94%	7.57	0.86%
Certificates of deposit	8.00	0.67%	9.00	0.71%
Notice Accounts	16.08	0.71%	22.00	0.69%
Call Accounts	3.03	0.53%	3.05	0.57%
Money Market Funds	6.04	0.45%	9.74	0.49%
Long term investments > 1 year	10.15	0.91%	24.89	1.24%
<b>Externally Managed Funds</b>				
Payden & Rygel	5.01	0.93%	5.00	0.88%
Funding circle	0.41	2.79%	0.65	10.00%
CCLA	6.18	5.42%	6.55	6.13%
SWIP	1.86	2.12%	1.80	1.36%
M&G	2.16	3.36%	2.03	3.22%
Schroders	0.97	6.96%	0.82	6.84%
UBS	0	0.00%	2.35	2.82%
City Financials	0	0.00%	2.34	0.68%
<b>Total Investments</b>	<b>113.89</b>	<b>1.03%</b>	<b>144.78</b>	<b>1.13%</b>

2.8 Our level of investments increased during 2015-16, and we achieved a higher return than last year.

### Security of investments

2.9 Counterparty credit quality was assessed and monitored with reference to credit ratings; for financial institutions analysis of funding structure and susceptibility to bail-in, credit default swap prices; financial statements; information on potential government support and reports in the quality financial press.

- 2.10 We also considered the use of secured investment products that provide collateral in the event that the counterparty cannot meet its obligations for repayment.
- 2.11 The minimum long-term counterparty credit rating for 'high quality counterparties' approved for 2015-16 was A-/A3 across all three main credit rating agencies (Fitch, S&P, and Moody's).
- 2.12 The strategy sets different limits for different counterparty credit ratings both in maximum duration and exposure in monetary terms.

#### **Liquidity of investments**

- 2.13 In keeping with the CLG's Guidance on Investments, the council maintained a sufficient level of liquidity using money market funds, call accounts, the maturity profile of fixed investments and certificates of deposits and short-term borrowing from other local authorities.
- 2.14 We use treasury.net as our daily cash flow forecasting software to determine the maximum period for which funds may prudently be committed.

#### **Yield of investments**

- 2.15 The council sought to optimise returns commensurate with its objective of security and liquidity. The Bank of England base rate was maintained at 0.50% throughout the year. Short-term money market rates also remained at very low levels, which continued to have an impact on investment returns.
- 2.16 We invested in corporate bonds during the year which increased returns, and also longer-term covered bonds, which increased the return of the portfolio and the duration. Covered bonds have a secondary market and can be sold should we need the liquidity.
- 2.17 The council's budgeted investment income for 2015-16 was £1.13 million and actual interest was £1.79 million. This includes £100,000 income from external funds that were not included in the budget.

#### **Externally managed funds**

- 2.18 We estimate to have substantial cash balances over the medium-term (our "core" cash), and as such we have continued investing in pooled (cash-plus, bond, equity, multi-asset and property) funds. These funds, have allowed us to diversify into asset classes other than cash without the need to own and manage the underlying investments. These funds operate on a variable net asset value (VNAV) basis offer diversification of investment risk, coupled with the services of a professional fund manager; they also offer enhanced returns over the longer term but are more volatile in the short term. All of our pooled funds are in the respective funds distributing share class, which pay out the income generated.

They have no defined maturity date, but are available for withdrawal, some with a notice period.

- 2.19 We regularly monitor all our external funds' performance and continued suitability in meeting our investment objectives.

### Borrowing and debt management

- 2.20 The council's debt portfolio is detailed in the table below. Our loan portfolio increased by £24.2 million, of which £5 million was long term and £19.5 million taken out for cash flow purposes.

Interest calc	Lender	Repayment method	Principal £'000	Initial loan period (yrs)	Period remaining years	Maturity date	Rate
<b>Long-term</b>							
Fixed	PWLB	EIP	1,150	10	5.0	31/03/2021	3.60%
Variable	PWLB	Maturity	45,000	10	6.0	28/03/2022	0.70%
Fixed	PWLB	Maturity	10,000	12	8.0	28/03/2024	2.70%
Fixed	PWLB	Maturity	10,000	13	9.0	28/03/2025	2.82%
Fixed	PWLB	Maturity	10,000	14	10.0	28/03/2026	2.92%
Fixed	PWLB	Maturity	10,000	15	11.0	28/03/2027	3.01%
Fixed	PWLB	Maturity	25,000	17	13.0	28/03/2029	3.15%
Fixed	PWLB	Maturity	25,000	20	16.0	28/03/2032	3.30%
Fixed	PWLB	Maturity	25,000	25	21.0	28/03/2037	3.44%
Fixed	PWLB	Maturity	15,000	29	25.0	28/03/2041	3.49%
Fixed	PWLB	Maturity	17,435	30	26.0	28/03/2042	3.50%
Fixed	Lancashire Police	Maturity	5,000	3	1.0	23/10/2017	1.50%
Fixed	Slough BC	Maturity	5,000	3	2.0	02/04/2018	1.20%
<b>Short-term</b>							
Fixed	West Midlands PCC	Maturity	5,000	0.16	0.0	05/04/2016	0.52%
Fixed	Manchester CC combined	Maturity	6,500	0.25	0.0	13/04/2016	0.43%
Fixed	Bath & NE Somerset DC	Maturity	2,000	0.25	0.1	21/04/2016	0.38%
Fixed	Basildon DC	Maturity	1,000	0.50	0.1	23/05/2016	0.50%
Fixed	Tameside	Maturity	4,000	0.50	0.1	23/05/2016	0.52%
Fixed	Vale of Glamorgan Council	Maturity	3,000	0.50	0.2	10/06/2016	0.46%
Fixed	Gloucestershire CC	Maturity	5,000	0.99	0.2	20/06/2016	0.55%
Fixed	Basset Law DC	Maturity	3,000	0.50	0.5	21/09/2016	0.50%
Fixed	Derby CC	Maturity	5,000	0.99	0.7	25/11/2016	0.65%
<b>Total</b>			<b>238,085</b>				

- 2.21 All short-term borrowing was from other local authorities, across a variety of periods.

- 2.22 Our chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should our long-term plans change being a secondary objective.



- 2.23 The rate on the variable rate loan is the average for the year.
- 2.24 We also has some short-term loans outstanding at the end of the year which we took out for cash flow purposes. Temporary and short-dated loans borrowed during the year from other local authorities remained affordable and attractive.
- 2.25 Affordability and the “cost of carry” remained important influences on our long-term borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would be invested at rates of interest significantly lower than the cost of borrowing. As short-term interest rates have remained, and are likely to remain at least over the forthcoming two years, lower than long-term rates, the council determined it was more cost effective in the short-term to use internal resources and borrow short-term to medium-term instead.
- 2.26 The benefits of internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose assist the council with this ‘cost of carry’ and break even analysis.
- 2.27 The PWLB continued to operate a spread of approximately 1% between “premature repayment rate” and “new loan” rates so the premium charge for early repayment of PWLB debt remained relatively expensive for the loans in our portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.

### **3. Treasury and prudential indicators**

- 3.1 The CFO confirms that we have complied with our prudential indicators for 2015-16, which were approved in February 2015 as part of the treasury management strategy statement. The CFO also confirms that we have complied with our treasury management policy statement and treasury management practices during 2015-16.
- 3.2 One of the key indicators is the adoption of the CIPFA treasury management code. It demonstrates that the council has adopted the principles of best practice. The council approved the adoption of the CIPFA treasury management code at its full Council meeting on 13 June 2002, and approved the revised treasury management policy on 9 February 2012.

#### **Balance sheet and treasury position prudential indicator**

- 3.3 The capital financing requirement (CFR) measures the council’s underlying need to borrow for a capital purpose. Over the medium-term, borrowing must be only for a capital purpose, although in the short-term, we can borrow for cash flow purposes, which do not affect the CFR.
- 3.4 The council’s CFR for 2015-16 is shown in the following table

<b>Capital Financing Requirement</b>	<b>2015-16 Approved Estimate £000</b>	<b>2015-16 Revised Estimate £000</b>	<b>2015-16 Actual £000</b>
<b>HRA</b>			
Opening balance (1 Apr 15)	196,664	196,664	196,664
Movement in year: Appropriations	0	0	0
Movement in year: Unfinanced capital expenditure	0	0	0
Movement in year: Voluntary Revenue Provision	0	0	0
<b>Closing balance (31 Mar 16)</b>	<b>196,664</b>	<b>196,664</b>	<b>196,664</b>
<b>General Fund</b>			
Opening balance (1 Apr 15)	31,579	30,311	30,311
Movement in year: Appropriations	0	0	0
Movement in year: Unfinanced capital expenditure	38,681	21,349	9,768
Movement in year: MRP	(677)	(293)	(294)
<b>Closing balance (31 Mar 16)</b>	<b>69,583</b>	<b>51,367</b>	<b>39,785</b>
<b>Total</b>			
Opening balance (1 Apr 15)	228,243	226,975	226,975
Movement in year: Appropriations	0	0	0
Movement in year: Unfinanced capital expenditure	38,681	21,349	9,768
Movement in year: MRP	(677)	(293)	(294)
Movement in year: VRP	0	0	0
<b>Closing balance (31 Mar 16)</b>	<b>266,247</b>	<b>248,031</b>	<b>236,449</b>
Balances and Reserves	(70,332)	(99,878)	(144,782)
<b>Cumulative net borrowing requirement / (investments)</b>	<b>195,915</b>	<b>148,153</b>	<b>91,667</b>

- 3.5 The GF unfinanced capital expenditure mainly relates to the cost of investment property purchase. This is much lower than budgeted because of the slippage in the capital programme – we projected this slippage during the year, which is shown by the revised estimate (as in the strategy report presented to Council in February 2016).
- 3.6 We budgeted an underlying need to borrow of £59.3 million for 2015-16, and our actual underlying need to borrow was £9.768 million because of slippage in the capital programme.

#### **Gross debt and the CFR**

- 3.7 We monitor the CFR to gross debt continuously to ensure that, over the medium term, borrowing is only for a capital purpose and does not exceed the CFR. This is a key indicator of prudence. We will report any deviations to the CFO for investigation and appropriate action. The following table shows the council is in a net internal borrowing position and gross debt does not exceed the CFR over the period.

Gross Debt and the CFR	2015-16	2016-17	2017-18
	Actual £000	Estimate £000	Estimate £000
General Fund CFR	39,785	132,447	204,873
HRA CFR	196,664	197,024	197,024
<b>Total CFR (at 31 March)</b>	<b>236,449</b>	<b>329,471</b>	<b>401,897</b>
Gross External Borrowing	(238,085)	(203,355)	(198,125)
<b>Net (external) / internal borrowing position</b>	<b>(1,636)</b>	<b>126,116</b>	<b>203,772</b>

- 3.8 The 2016-17 and 2017-18 estimates are based on what was approved in the treasury management strategy in February 2016.
- 3.9 Actual debt levels are monitored against the operational boundary and authorised limit for external debt, detailed in section x.
- 3.10 We are showing as being in an external borrowing position of £1.6 million for the year, this is because we have £34.5 million of short-term borrowing for cash flow purposes. If we only had long-term borrowing, the net internal borrowing position for 2015-16 would be £32.8 million.

#### **Capital expenditure prudential indicator**

- 3.11 This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits, and, in particular, to consider the impact on council tax or housing rent levels for the HRA.
- 3.12 The following table shows capital expenditure in the year, compared to the original estimate approved by the Executive in January 2015.

Projects	Original Estimate (£'000)	Actual (£'000)	Variance (£'000)
<u>Housing Revenue Account</u>			
HRA Capital Programme	15,972	7,635	(8,337)
<b>Total Housing</b>	<b>15,972</b>	<b>7,635</b>	<b>(8,337)</b>
<u>General Fund</u>			
Affordable Housing	1,355	932	(423)
Investment in Millmead improvements	1,971	3,244	1,273
SARP	112	1	(111)
Asset investment fund	18,000	9,692	(8,308)
North Street development	331	0	(331)
Vehicle replacement	630	1,136	506
Spectrum Roof & CHP	3,638	30	(3,608)
Riverside Route Ph1	708	115	(593)
Provisional schemes	33,043	37	(33,006)
Energy schemes	304	151	(153)
IT renewals	515	743	228
Schemes at Spectrum	243	0	(243)
Other General Fund Projects	3,279	2,466	(813)
<b>Total General Fund</b>	<b>64,129</b>	<b>18,547</b>	<b>(45,582)</b>
<b>Total Capital Programme</b>	<b>80,101</b>	<b>26,182</b>	<b>(53,919)</b>

3.13 The table shows that there was a lot of slippage in the capital programme. This was mainly over a few larger schemes including:

- asset investment fund – re-profiling of expenditure
- spectrum roof and CHP works being carried out at around the same time as the roof – project did not happen as quickly as anticipated and is progressing in 2016-17
- provisional schemes were re-profiled during the year, and include:
  - new burial grounds
  - woodbridge road
  - Guildford park car park
  - North street development
  - Millbrook/Mary road car parks works to increase spaces

3.14 The following table shows the financing of capital expenditure in the year, compared with the original approved estimate.

<b>CAPITAL EXPENDITURE - SUMMARY</b>	<b>Original Estimate (£'000)</b>	<b>Actual (£'000)</b>
<b>General Fund Capital Expenditure</b>		
- Main programme	60,674	16,316
- Reserve & s106 Capital Schemes	2,100	1,299
- General Fund Housing	1,355	932
<b>HRA Capital expenditure</b>		
- Main programme	15,972	7,635
<b>Total Capital Expenditure</b>	<b>80,101</b>	<b>26,182</b>
<b>CAPITAL EXPENDITURE - SUMMARY</b>	<b>Original Estimate (£'000)</b>	<b>Actual (£'000)</b>
<b>General Fund Capital Expenditure Financed by:</b>		
- Borrowing/Use of Balances	(59,331)	(9,768)
- Capital Receipts	(30)	(4,729)
- Capital Grants/Contributions	(1,588)	(1,071)
- Capital Reserves/Revenue	(3,180)	(2,979)
<b>HRA Capital Expenditure Financed by:</b>		
- Borrowing/Use of Balances	0	0
- Capital Receipts	(5,505)	(1,855)
- Capital Grants/Contributions	0	(808)
- Capital Reserves/Revenue	(10,467)	(4,972)
<b>Financing - Totals</b>	<b>(80,101)</b>	<b>(26,182)</b>

- 3.15 GF borrowing was less than budgeted because of slippage in the capital programme, and an increase in the opening of available capital resources which reduced the need for internal borrowing in the year.

### **Incremental impact of capital investment decisions prudential indicator**

- 3.16 This is an indicator of affordability. It shows the effect on the revenue budget arising from the capital programme, excluding financing costs. The calculation is the loss of interest on funds used for the capital programme (using the average investment rate), plus any ongoing revenue implications of the schemes and MRP.
- 3.17 Capital investment decisions do not affect the weekly housing rent charge as the council sets its rents in line with the policy laid down by the CLG. There is also no variation to council tax once it has been set. We calculate this prudential indicator on an actual basis for comparative purposes.

	<b>2015-16 Approved £</b>	<b>2015-16 Outturn £</b>
Cost of Capital Programme on Council Tax - Band D	13.25	3.48
Cost of Housing Capital Programme Weekly Housing Rents	0.69	0.28

- 3.18 The impact for both the GF and HRA is lower than approved because of slippage in the capital programme, detailed above.

**Ratio of financing costs to the net revenue stream prudential indicator**

- 3.19 This is an indicator of affordability and highlights the revenue impact of capital expenditure by identifying the proportion of the revenue budget required to meet the financing costs associated with capital spending. Financing costs include interest on borrowing, MRP, premium or discount on loans repaid early, investment income and depreciation where it is a real charge.
- 3.20 Depreciation is not a real charge to the GF, but has been to the HRA since April 2012.
- 3.21 The ratio is based on costs net of investment income.
- 3.22 The net revenue stream for the GF is the total budget requirement and for the HRA is total income. Where the figure is negative, it is because there is a net investment position (more investments than debt). The total budget requirement for the GF used is the 2016-17 budget.

	2015-16 Original Estimate	2015-16 Actual
General Fund	1.80%	-7.08%
HRA	32.96%	34.55%

- 3.23 The GF is lower than originally budgeted because investment income is higher, and HRA is higher because the depreciation charge is higher.
- 3.24 The figure for the GF is negative because interest received is higher than financing costs (interest payable, debt management costs and MRP).

**The authorised limit prudential indicator**

- 3.25 The Local Government Act 2003 requires the council to set an affordable borrowing limit, irrespective of the indebted status. This is a statutory limit, which we cannot breach.
- 3.26 The limit is the maximum amount of external debt we can legally owe at any one time. It is expressed gross of investments and includes capital expenditure plans, the CFR and cash flow expenditure. It also provides headroom over and above for unexpected cash movements.
- 3.27 The limit was set at £435.9 million for the year and the highest level of debt was £252.2 million.
- 3.28 We measure the levels of debt on an ongoing basis during the year for compliance. The CFO confirms there were no breaches to the authorised limit in 2015-16.

**The operational boundary prudential indicator**

- 3.29 The operational boundary, based on the same estimates as the authorised limit, reflects the most likely, prudent but not worst case scenario. It does not allow for additional headroom included in the authorised limit.
- 3.30 The limit was set at £404.31 million for the year and the highest level of debt was £252.2 million.

**Upper limit for fixed and variable interest rate exposures treasury indicator**

- 3.31 This indicator is set to control exposure to interest rate risk. We calculate exposures on a net basis (fixed rate debt net of fixed rate investments). We take fixed rate to be if it was taken out as a fixed rate loan/investment regardless of its duration.

Net Debt / (Investments) on Principal outstanding	2015-16 Approved £000	2015-16 Actual £000
Limits on fixed interest rates	312,340	158,591
Limits on variable interest rates	(22,790)	(42,968)

- 3.32 The above shows that at its peak fixed interest rates were well within our target. Variable was higher than target, and is negative because we had more variable rate investments than debt. We include our external funds as variable rate investments.

**Maturity structure of fixed rate borrowing treasury indicator**

- 3.33 The aim of this indicator is to control our exposure to refinancing risk (large concentrations of fixed rate debt needing refinancing at once). We calculate this as the amount of fixed rate borrowing maturing in each period as a percentage of fixed rate borrowing.

	Upper Limit	Lower Limit	Actual at 31 March 2016	Value of loans maturing
Under 12 months	15%	0%	17.99%	34,730,000
1-2 years	20%	0%	5.30%	10,230,000
3 to 5 years	25%	0%	0.36%	690,000
6 to 10 years	50%	0%	15.54%	30,000,000
11 years and above	100%	0%	60.82%	117,435,000

- 3.34 The above table shows the amount of debt maturing in each period and its percentage of total fixed rate loans. The targets were set to give us flexibility for drawing down new loans on a fixed or variable rate basis. If a lower upper limit for fixed rate debt were set, the council would be giving itself a greater exposure to interest rate changes by having more variable rate debt. The upper limit for under 12 months was set to cover any short-term borrowing for cash flow

purposes and for allowing for the principal loan repayments falling in that period. The limit for that maturing within 12 months is slightly higher due to short-term borrowing levels. Proportionately there is very little fixed rate debt maturing before 10 years, which gives the council stability in its interest payments over that time. The first fixed rate loan matures in 2024. The two longer local authority loans are maturing in the next 1-2 years.

- 3.35 The actual at March 2016 was higher than target because the upper limit did not allow for as much short-term borrowing as we had at the end of the year.

#### **Actual external debt treasury indicator**

- 3.36 This indicator comes directly from our balance sheet. It is the closing balance for actual gross borrowing (short and long term) plus other deferred liabilities. It is measured in a manner consistent for comparison with the authorised limit and operational boundary.

	<b>External debt as at 31-03-15 £'000</b>	<b>External debt as at 31-03-16 £'000</b>
Borrowing	213,815	238,085
Other long term liabilities	0	0
<b>Total</b>	<b>213,815</b>	<b>238,085</b>

- 3.37 Actual external debt increased due to short-term borrowing and a small level of long-term borrowing from other local authorities

#### **HRA limit of indebtedness prudential indicator**

- 3.38 This indicator compares the actual debt of the HRA to the debt cap imposed by the Government.

	<b>2015-16 Actual £'000</b>	<b>2016-17 Estimate £'000</b>	<b>2017-18 Estimate £'000</b>	<b>2018-19 Estimate £'000</b>
<b>HRA CFR</b>	196,664	197,024	197,024	197,024
<b>HRA Debt Cap</b>	196,665	197,024	197,024	197,024
<b>Balance available</b>	<b>(1)</b>	<b>0</b>	<b>0</b>	<b>0</b>

- 3.39 The table shows that the council operated inside the debt cap for 2015-16. We need to review our HRA CFR continually to ensure that, should the need to start increasing the CFR arise, there are balances and reserves to fund the capital expenditure to ensure the debt cap is not breached. The debt cap could stop the council building homes, if we do not have enough reserves to fund our building programme.



**Upper limit for total principal sums invested over 364 days**

- 3.40 The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the council having to seek early repayment of the sums invested.
- 3.41 Our limit was set at £50 million, we ended the year with exposure of £x million.
- 3.42 As mentioned earlier in the report, many of our longer term investments are covered bonds, which can be sold on the secondary market. There could be a price differential if they were sold, but it is unlikely to be material.

## Schedule of investments at 31 March 2016

Counterparty	Principal £	Rate	Start	End
<b>Fixed investments</b>				
Heleba	2,000,000	0.7400%	01-Oct-15	01-Apr-16
NRBS Cumberland BS	1,000,000	0.5400%	15-Jan-16	22-Apr-16
NRBS Loughborough BS	1,000,000	0.5500%	15-Jan-16	22-Apr-16
Close Brothers	1,000,000	0.6500%	30-Oct-15	29-Apr-16
DBS	2,000,000	0.6300%	05-Nov-15	05-May-16
Coventry BS	5,000,000	0.6000%	11-Nov-15	11-May-16
Pohjola	5,000,000	0.7000%	03-Dec-15	03-Jun-16
National Counties BS	1,000,000	0.7500%	04-Dec-15	06-Jun-16
LA - Lancashire CC	2,000,000	0.6500%	02-Jul-15	30-Jun-16
Heleba	2,000,000	0.8000%	11-Jan-16	11-Jul-16
Lloyds	1,000,000	0.9200%	13-Aug-15	13-Jul-16
Lloyds	2,000,000	1.0000%	10-Aug-15	08-Aug-16
Lloyds	2,000,000	1.0000%	08-Sep-15	06-Sep-16
DBS	4,000,000	0.7000%	18-Dec-15	19-Sep-16
LA - North Tyneside MBC	3,000,000	0.7000%	24-Dec-15	22-Dec-16
OCBC	5,000,000	0.8200%	06-Jan-16	04-Jan-17
Bank of Nova Scotia	5,000,000	0.7900%	06-Jan-16	06-Jan-17
NRBS Furness (6mth break c	1,000,000	1.5500%	18-Sep-15	17-Sep-17
Heleba	2,000,000	0.7400%	04-Feb-16	04-Aug-16
	<b>47,000,000</b>			
<b>Certificates of deposit</b>				
Toronton Dominion	1,000,000	0.6100%	16-Oct-15	19-Apr-16
Standard Chartered	3,000,970	0.7400%	19-Nov-15	03-May-16
Toronton Dominion	5,000,000	0.8900%	30-Nov-15	28-Nov-16
	<b>9,000,970</b>			
<b>Short-term Bonds</b>				
Svenska Handelsbanken	1,000,000	0.8500%	21-Oct-15	26-May-16
Daimler AG	2,000,000	1.2700%	07-Dec-15	02-Dec-16
Daimler AG	766,000	1.1850%	19-Jan-16	02-Dec-16
Wales & West Utility Finance	900,000	1.1750%	21-Jan-16	02-Dec-16
London Stock Exchange plc	1,350,000	1.4980%	02-Feb-16	07-Jul-16
Bank of Scotland	1,550,000	0.8310%	03-Mar-16	08-Nov-16
	<b>7,566,000</b>			
<b>Long-term Covered bonds</b>				
Yorkshire BS	1,107,100	1.2602%	16-Feb-15	12-Apr-18
Bank of Scotland	2,000,000	0.9700%	06-Aug-15	08-Nov-16
Nationwide	907,000	0.7894%	01-Sep-15	17-Jul-17
Leeds BS (3mth LIBOR+27bp	3,000,000	0.8591%	09-Feb-15	09-Feb-18
Nationwide (3m LIBOR + 20bp	1,372,000	0.7894%	27-Apr-15	27-Apr-18
Toronton Dominion (3mLIBOR	1,000,000	1.0709%	03-Feb-16	01-Feb-19
ANZ (3m LIBOR + 47bp)	2,000,000	1.0610%	11-Feb-16	11-Feb-19
Leeds BS (3mth LIBOR+40bp	2,000,000	0.9913%	01-Oct-14	01-Oct-19
Coventry (3mth LIBOR + 30bp	2,000,000	0.8888%	17-Mar-15	17-Mar-20
	<b>15,386,100</b>			

Counterparty	Principal £	Rate	Start	End
<b>Long-term investments</b>				
Fife Council	5,000,000	1.7700%	07-Apr-15	07-Apr-20
Rugby BC	3,000,000	1.8000%	05-May-15	05-May-20
Staffordshire Moorlands	1,500,000	1.7800%	20-May-15	20-May-20
	<b>9,500,000</b>			
<b>Notice Accounts</b>				
Barclays	3,000,000			
Close Brothers	5,000,000			
Handlesbanken	4,000,000			
Santander 120 day	2,000,000			
Santander 180 day	3,000,000			
Goldman Sachs Evergreen	5,000,000			
	<b>22,000,000</b>			
<b>Call accounts</b>				
HSBC Business Reserve	3,052,701			
	<b>3,052,701</b>			
<b>Money market funds</b>				
Aberdeen	200,000			
Standard Life (formerly Ignis)	6,322,000			
Federated	3,218,000			
	<b>9,740,000</b>			
<b>Total internally managed</b>	<b>123,245,771</b>			
<b>Externally managed</b>				
Payden	4,999,920			
CCLA	6,553,160			
M&G	2,025,718			
Schroders	823,518			
Aberdeen	1,797,729			
City Financials	2,335,036			
UBS	2,349,432			
Funding Circle	653,109			
<b>Total Externally managed</b>	<b>21,537,622</b>			
<b>Total investments</b>	<b>144,783,394</b>			

## Economic background – a commentary from Arlingclose

**Growth, Inflation, Employment:** The UK economy slowed in 2015 with GDP growth falling to 2.3% from a robust 3.0% the year before. CPI inflation hovered around 0.0% through 2015 with deflationary spells in April, September and October. The prolonged spell of low inflation was attributed to the continued collapse in the price of oil from \$67 a barrel in May 2015 to just under \$28 a barrel in January 2016, the appreciation of sterling since 2013 pushing down import prices and weaker than anticipated wage growth resulting in subdued unit labour costs. CPI picked up to 0.3% year/year in February, but this was still well below the Bank of England's 2% inflation target. The labour market continued to improve through 2015 and in Q1 2016, the latest figures (Jan 2016) showing the employment rate at 74.1% (the highest rate since comparable records began in 1971) and the unemployment rate at a 12 year low of 5.1%. Wage growth has however remained modest at around 2.2% excluding bonuses, but after a long period of negative real wage growth (i.e. after inflation) real earnings were positive and growing at their fastest rate in eight years, boosting consumers' spending power.

**Global influences:** The slowdown in the Chinese economy became the largest threat to the South East Asian region, particularly on economies with a large trade dependency on China and also to prospects for global growth as a whole. The effect of the Chinese authorities' intervention in their currency and equity markets was temporary and led to high market volatility as a consequence. There were falls in prices of equities and risky assets and a widening in corporate credit spreads. As the global economy entered 2016 there was high uncertainty about growth, the outcome of the US presidential election and the consequences of June's referendum on whether the UK is to remain in the EU. Between February and March 2016 sterling had depreciated by around 3%, a significant proportion of the decline reflecting the uncertainty surrounding the referendum result.

**UK Monetary Policy:** The Bank of England's MPC (Monetary Policy Committee) made no change to policy, maintaining the Bank Rate at 0.5% (in March it entered its eighth year at 0.5%) and asset purchases (Quantitative Easing) at £375bn. In its *Inflation Reports* and monthly monetary policy meeting minutes, the Bank was at pains to stress and reiterate that when interest rates do begin to rise they were expected to do so more gradually and to a lower level than in recent cycles.

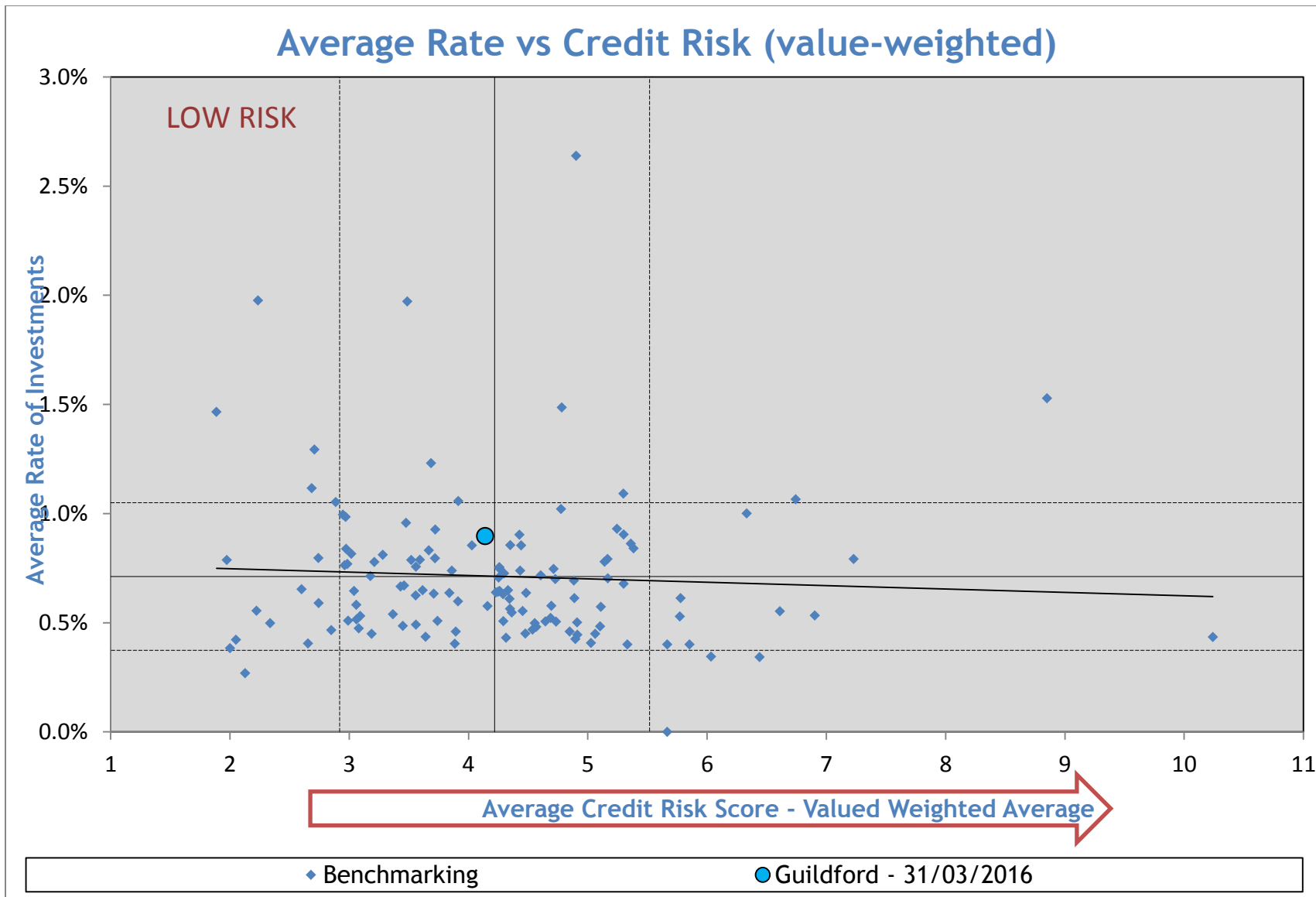
Improvement in household spending, business fixed investment, a strong housing sector and solid employment gains in the US allowed the Federal Reserve to raise rates in December 2015 for the first time in nine years to take the new Federal funds range to 0.25%-0.50%. Despite signalling four further rate hikes in 2016, the Fed chose not to increase rates further in Q1 and markets pared back expectations to no more than two further hikes this year.

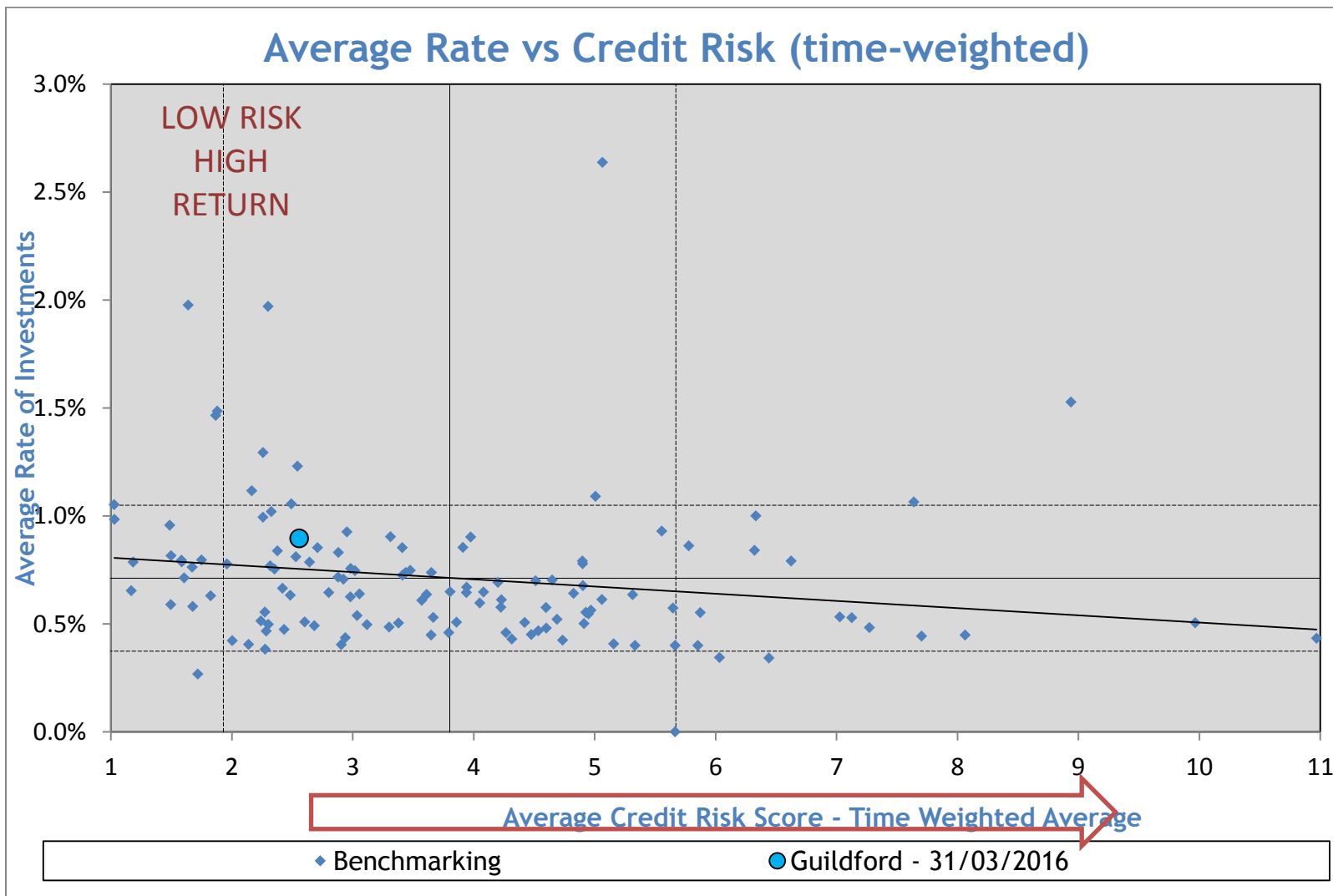
However central bankers in the Eurozone, Switzerland, Sweden and Japan were forced to take policy rates into negative territory. The European Central Bank also announced

a range of measures to inject sustained economic recovery and boost domestic inflation which included an increase in asset purchases (Quantitative Easing).

**Market reaction:** From June 2015 gilt yields were driven lower by the a weakening in Chinese growth, the knock-on effects of the fall in its stock market, the continuing fall in the price of oil and commodities and acceptance of diminishing effectiveness of central bankers' unconventional policy actions. Added to this was the heightened uncertainty surrounding the outcome of the UK referendum on its continued membership of the EU as well as the US presidential elections which culminated in a significant volatility and in equities and corporate bond yields.

10-year gilt yields moved from 1.58% on 31/03/2015 to a high of 2.19% in June before falling back and ending the financial year at 1.42%. The pattern for 20-year gilts was similar, the yield rose from 2.15% in March 2015 to a high of 2.71% in June before falling back to 2.14% in March 2016. The FTSE All Share Index fell 7.3% from 3664 to 3395 and the MSCI World Index fell 5.3% from 1741 to 1648 over the 12 months to 31 March 2016.





## Rates

### Money Market Data and PWLB Rates

The average, low and high rates correspond to the rates during the financial year rather than those in the tables below.

Please note that the PWLB rates below are Standard Rates. Authorities eligible for the Certainty Rate can borrow at a 0.20% reduction.

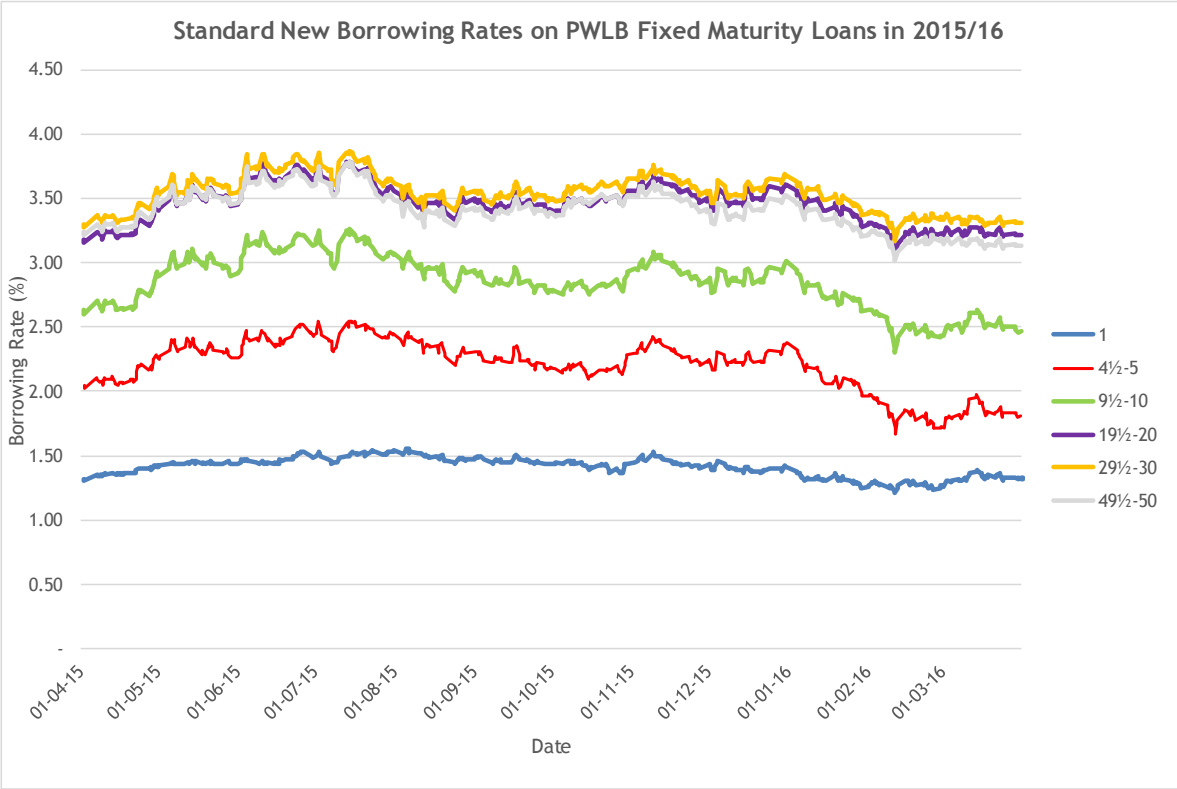
**Table 1: Bank Rate, Money Market Rates**

Date	Bank Rate	O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/04/2015	0.50	0.35	0.46	0.43	0.51	0.76	0.97	0.87	1.05	1.32
30/04/2015	0.50	0.35	0.48	0.43	0.52	0.74	0.98	1.00	1.21	1.51
31/05/2015	0.50	0.43	0.50	0.43	0.52	0.75	0.98	0.97	1.18	1.49
30/06/2015	0.50	0.35	0.45	0.43	0.52	0.79	0.99	1.09	1.35	1.68
31/07/2015	0.50	0.32	0.43	0.43	0.53	0.79	1.01	1.10	1.33	1.66
31/08/2015	0.50	0.42	0.40	0.43	0.54	0.82	1.02	1.03	1.24	1.61
30/09/2015	0.50	0.37	0.41	0.43	0.54	0.74	1.00	0.93	1.11	1.41
31/10/2015	0.50	0.36	0.41	0.43	0.54	0.77	1.00	0.97	1.16	1.49
30/11/2015	0.50	0.30	0.42	0.43	0.54	0.88	1.00	0.93	1.10	1.39
31/12/2015	0.50	0.43	0.35	0.43	0.54	0.76	1.01	1.09	1.30	1.58
31/01/2016	0.50	0.43	0.42	0.43	0.54	0.71	0.99	0.77	0.89	1.14
29/02/2016	0.50	0.25	0.43	0.43	0.54	0.73	0.99	0.71	0.74	0.85
31/03/2016	0.50	0.30	0.44	0.52	0.62	0.71	0.93	0.79	0.84	1.00
<b>Average</b>	<b>0.50</b>	<b>0.38</b>	<b>0.45</b>	<b>0.43</b>	<b>0.54</b>	<b>0.76</b>	<b>0.99</b>	<b>0.96</b>	<b>1.14</b>	<b>1.43</b>
<b>Maximum</b>	<b>0.50</b>	<b>0.48</b>	<b>0.58</b>	<b>0.57</b>	<b>0.66</b>	<b>0.92</b>	<b>1.02</b>	<b>1.17</b>	<b>1.44</b>	<b>1.81</b>
<b>Minimum</b>	<b>0.50</b>	<b>0.17</b>	<b>0.35</b>	<b>0.43</b>	<b>0.51</b>	<b>0.55</b>	<b>0.84</b>	<b>0.68</b>	<b>0.73</b>	<b>0.85</b>
<b>Spread</b>	<b>--</b>	<b>0.31</b>	<b>0.23</b>	<b>0.14</b>	<b>0.15</b>	<b>0.37</b>	<b>0.18</b>	<b>0.49</b>	<b>0.71</b>	<b>0.96</b>



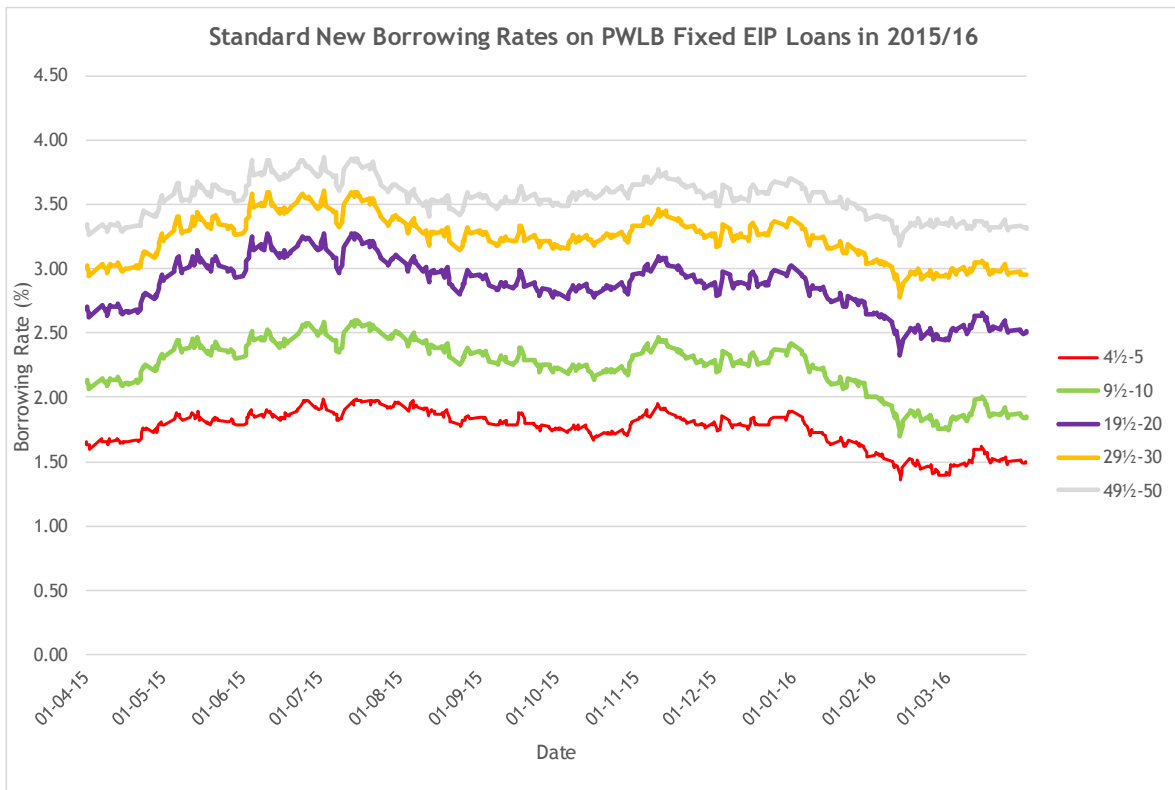
**Table 2: PWLB Borrowing Rates – Fixed Rate, Maturity Loans**

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2015	127/15	1.33	2.10	2.69	3.24	3.37	3.32	3.31
30/04/2015	166/15	1.41	2.27	2.90	3.44	3.55	3.50	3.48
31/05/2015	204/15	1.44	2.26	2.90	3.44	3.54	3.48	3.45
30/06/2015	248/15	1.48	2.44	3.13	3.65	3.72	3.64	3.60
31/07/2015	294/15	1.54	2.45	3.07	3.56	3.62	3.54	3.49
31/08/2015	334/15	1.47	2.30	2.92	3.47	3.54	3.44	3.40
30/09/2015	379/15	1.44	2.19	2.79	3.42	3.50	3.42	3.39
31/10/2015	423/15	1.44	2.38	2.93	3.56	3.65	3.56	3.53
30/11/2015	465/15	1.42	2.23	2.85	3.48	3.54	3.42	3.39
31/12/2015	505/15	1.41	2.38	3.01	3.61	3.68	3.56	3.53
31/01/2016	040/16	1.24	1.96	2.62	3.28	3.37	3.23	3.20
29/02/2016	082/16	1.27	1.73	2.43	3.23	3.36	3.24	3.19
31/03/2016	124/16	1.33	1.81	2.48	3.21	3.30	3.16	3.12
	<b>Low</b>	1.21	1.67	2.30	3.06	3.17	3.05	3.01
	<b>Average</b>	1.41	2.20	2.85	3.46	3.54	3.45	3.42
	<b>High</b>	1.55	2.55	3.26	3.79	3.87	3.80	3.78



**Table 3: PWLB Borrowing Rates – Fixed Rate, Equal Instalment of Principal (EIP) Loans**

Change Date	Notice No	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2015	127/15	1.66	2.14	2.71	3.03	3.24	3.35
30/04/2015	166/15	1.79	2.31	2.92	3.24	3.45	3.54
31/05/2015	204/15	1.78	2.30	2.93	3.26	3.45	3.53
30/06/2015	248/15	1.90	2.49	3.15	3.47	3.65	3.72
31/07/2015	294/15	1.96	2.50	3.09	3.39	3.57	3.63
31/08/2015	334/15	1.83	2.34	2.94	3.27	3.48	3.55
30/09/2015	379/15	1.76	2.23	2.82	3.19	3.43	3.51
31/10/2015	423/15	1.81	2.32	2.96	3.33	3.57	3.66
30/11/2015	465/15	1.79	2.27	2.87	3.25	3.49	3.56
31/12/2015	505/15	1.89	2.42	3.03	3.39	3.62	3.70
31/01/2016	040/15	1.54	2.00	2.65	3.04	3.29	3.38
29/02/2016	082/16	1.42	1.77	2.46	2.95	3.24	3.36
31/03/2016	124/16	1.50	1.85	2.51	2.96	3.22	3.31
	<b>Low</b>	1.36	1.70	2.33	2.78	3.07	3.18
	<b>Average</b>	1.76	2.25	2.88	3.24	3.47	3.55
	<b>High</b>	1.99	2.60	3.28	3.61	3.79	3.87



**Table 4: PWLB Variable Rates**

	<b>1-M Rate</b>	<b>3-M Rate</b>	<b>6-M Rate</b>	<b>1-M Rate</b>	<b>3-M Rate</b>	<b>6-M Rate</b>
	<b>Pre- CSR</b>	<b>Pre- CSR</b>	<b>Pre- CSR</b>	<b>Post- CSR</b>	<b>Post- CSR</b>	<b>Post- CSR</b>
01/04/2015	0.62	0.63	0.66	1.52	1.53	1.56
30/04/2015	0.62	0.64	0.67	1.52	1.54	1.57
31/05/2015	0.62	0.65	0.68	1.52	1.55	1.58
30/06/2015	0.62	0.66	0.70	1.52	1.56	1.60
31/07/2015	0.62	0.66	0.72	1.52	1.56	1.62
31/08/2015	0.62	0.66	0.70	1.52	1.56	1.60
30/09/2015	0.66	0.67	0.76	1.56	1.57	1.66
31/10/2015	0.66	0.67	0.76	1.46	1.56	1.57
30/11/2015	0.64	0.67	0.72	1.54	1.57	1.62
31/12/2015	0.63	0.65	0.72	1.53	1.55	1.62
31/01/2016	0.64	0.66	0.69	1.54	1.56	1.59
29/02/2016	0.63	0.65	0.68	1.53	1.55	1.58
31/03/2016	0.61	0.65	0.67	1.51	1.55	1.57
<b>Low</b>	0.61	0.61	0.66	1.51	1.51	1.56
<b>Average</b>	0.63	0.66	0.71	1.53	1.56	1.61
<b>High</b>	0.67	0.69	0.78	1.57	1.59	1.68

## Credit score analysis

Scoring:

<b>Long-Term Credit Rating</b>	<b>Score</b>
AAA	1
AA+	2
AA	3
AA-	4
A+	5
A	6
A-	7
BBB+	8
BBB	9
BBB-	10

The value-weighted average reflects the credit quality of investments according to the size of the deposit. The time-weighted average reflects the credit quality of investments according to the maturity of the deposit

The Authority aimed to achieve a score of 7 or lower, to reflect the Authority's overriding priority of security of monies invested and the minimum credit rating of threshold of A- for investment counterparties.

**Credit Rating Equivalents and Definitions**

	<b>Fitch</b>	<b>Moody's</b>	<b>Standard &amp; Poor's</b>
<b>Long Term Investment Grade</b>	AAA	Aaa	AAA
	AA+	Aa1	AA+
	AA	Aa2	AA
	AA-	Aa3	AA-
	A+	A1	A+
	A	A2	A
	A-	A3	A-
	BBB+	Baa1	BBB+
	BBB	Baa2	BBB
	BBB-	Baa3	BBB-
<b>Sub Investment Grade</b>	BB+	Ba1	BB+
	BB	Ba2	BB
	BB-	Ba3	BB-
	B+	B1	B+
	B	B2	B
	B-	B3	B-
	CCC+	Caa1	CCC+
	CCC	Caa2	CCC
	CCC-	Caa3	CCC-
	CC+	Ca1	CC+
	CC	Ca2	CC
	CC-	Ca3	CC-
	C+	C1	C+
	C	C2	C
	C-	C3	C-
	D		D or SD

<b>Fitch</b>	<b>Moody's</b>	<b>Standard &amp; Poor's</b>
<b>AAA</b> Highest credit quality. 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in the case of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.	<b>Aaa</b> Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk.	<b>AAA</b> An obligator rated 'AAA' has extremely strong capacity to meet its financial commitments. 'AAA' is the highest issuer credit rating assigned by Standard & Pooers.
<b>AA</b> Very high credit quality. 'AA' ratings denote expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	<b>Aa</b> Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.	<b>AA</b> An obligator rated 'AA' has very strong capacity to meets its financial commitments. It differs from the highest rated obligators only to a small degree.
<b>A</b> High credit quality. 'A' ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.	<b>A</b> Obligations rated A are considered upper-medium grade and are subject to low credit risk.	<b>A</b> An obligator rated 'A' has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligators in higher rated categories.
<b>BBB</b> Good credit quality. 'BBB' ratings indicate that there are currently expectations of low credit risk. The capacity for payment of financial commitments is considered adequate but adverse changes in circumstances and economic conditions are more likely to impair this capacity. This is the lowest investment grade category.	<b>Baa</b> Obligations rated Baa are subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics.	<b>BBB</b> An obligator rated 'BBB' has adequate capacity to meets its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligator to meet its financial commitments.



## **Background to externally managed funds**

### **CCLA – The Local Authorities Property Fund**

The fund's objective is to generate long-term growth in capital and a high and rising income over time.

The aim is to have high quality, well-diversified commercial and industrial property portfolio, in the UK, focussing on delivering attractive income and is actively managed to add value.

The fund will maintain a suitable spread between different types of property and geographical location. Importance will be attached to location, standard of construction and quality of covenant with lease terms preferably embodying upwards only rent reviews at intervals of not more than five years.

### **M&G Global Dividend Fund**

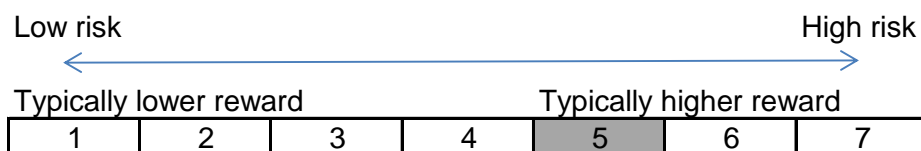
The fund aims to deliver a dividend yield above the market average, by investing mainly in a range of global equities. It aims to grow distributions over the long-term whilst maximising total return (a combination of income and growth of capital).

Exposure to global equities may be gained by using derivatives. The fund may invest across a wide range of geographies, sectors and market capitalisations. It may also invest in other assets including collective investment schemes, other transferrable securities, cash and near cash, deposits, warrants, money market instruments and derivatives.

The fund employs a bottom-up stockpicking approach, driven by the fundamental analysis of individual companies. The fund seeks to invest in companies that understand capital discipline, have the potential to increase dividends over the long-term and are undervalued by the stock market. Dividend yield is not the primary consideration for stock selection.

The fund manager aims to create a diversified portfolio with exposure to a broad range of countries and sectors designed to perform well in a variety of market conditions. It usually holds around 50 stocks with a long-term investment view and a typical holding period of 3-5 years.

Risk and reward profile



The fund’s risk factor based on historical data and may not be the same moving forward. It is rated a 5 because of the investments the fund makes:

- Value of investments, and income from them, will fluctuate and will cause the fund price to rise or fall
- Currency exchange rate fluctuations will impact the value of the investment
- There is a risk that a counterparty may default on its obligations or become insolvent, which may have a negative impact on the fund
- Investments in Emerging markets tend to have larger price fluctuations than more developed countries.
- There is a risk that one or more countries will exit the Euro and re-establish their own currencies. There is an increased risk of asset prices fluctuating or losing value. It may also be difficult to buy and sell securities and issuers may be unable to repay the debt. In addition, there is a risk that disruption in Eurozone markets could give rise to difficulties in valuing the assets of the fund.

**SWIP Absolute Return Bond Fund**

The objective of the fund is to achieve capital return, regardless of market conditions, over rolling 12-month periods.

The fund mainly invests in fixed-interest securities (including government and supranational bonds, corporate bonds, non-investment grade bonds and emerging markets debt), index-linked securities, money market transactions, cash, near-cash and deposits.

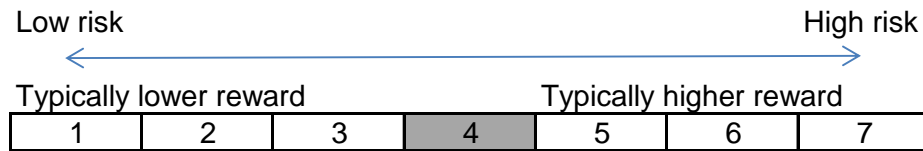
The fund may use derivatives (financial contracts whose value is linked to an underlying asset) to manage risks and costs.

The fund will be managed with the aim of delivering absolute (more than zero) return in any market conditions. An absolute return is not guaranteed and the fund may experience periods of negative returns.

At any one time a substantial amount of the fund may be held in cash.



Risk and reward profile



The risk profile represents where the fund ranks in terms of its potential risk and reward.

The fund is rated 4 because:

- The value in the underlying value of the investments are subject to price fluctuations
- Interest rate risk – fluctuations in interest rates are likely to affect the value of the bonds and other fixed-interest securities held by the fund. If long-term interest rates rise, the value of the investment is likely to fall.
- Credit risk – there is a risk that the issuers of bonds may not be able to repay the money they have borrowed nor make any interest payments. The risk is greater than average where the fund invests in a bond with a below investment grade rating.
- Currency risk – the fund may have holdings which are denominated in different currencies and may be affected by movements in exchange rates.
- Derivatives risk – Derivative transactions will or maybe used to a significant extent. At times, through the use of these instruments could lead to considerable short-term fluctuations in price. The impact to the fund is greater where derivatives are used in an extensive or complex way.
- Absolute return risk – due to its investment strategy, the fund may not move in line with market trends or fully benefit from a positive market environment.

**Schroder Income Maximiser Fund**

The funds objective is to provide income with potential capital growth primarily through investment in equity and equity related securities of UK companies. The fund will also use derivative instruments to generate income.

The manager may selectively sell short dated call options over securities or portfolios of securities held by the fund or indicies, in order to generate additional income by setting target 'strike' prices at which those securities may be sold in the future. The manger may also, for the purpose of efficient management, use derivative instruments which replicate the performance of a basket of short dated call options or a combination of equity securities and short dated call options. Investment will be in directly held transferable securities. The fund may also invest in collective investment schemes, derivatives, cash, deposits, warrants and money market transactions.

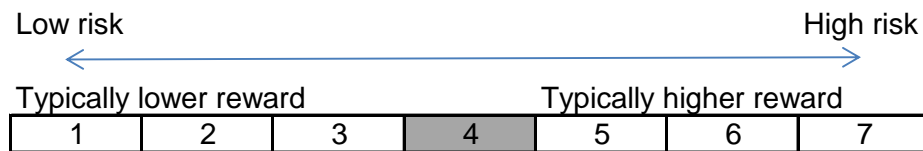
The fund aims to deliver a target yield of 7% per year, although this is an estimate and is not guaranteed. There are four quarterly distributions in a year, each calculated by dividing the quarterly distribution amount by the unit price at the start of that quarter.

**City Financials Multi Asset Diversified Fund**

The investment objective of the fund is to achieve a consistent long-term return from both capital and income by investing across a diversified global portfolio of assets.

The investment manager uses a global asset allocation framework to invest across a diversified range of asset classes, geographies, sectors and investment styles. The portfolio invests in a combination of specialist funds, ETFs, listed investment vehicles, individual securities and cash, and uses derivatives for hedging and investment purposes to both reduce market risk and enhance returns. As a consequence, the portfolio exhibits low correlation to traditional asset classes. Positions are generally held with a three to five year time horizon. However, the management of the portfolio is active and the investment strategy is liquid and dynamic in order to adapt to changing market conditions.

Risk and reward profile



The risk category is based on the rate at which the value of the Fund has moved up or down in the past. Simulated and historical data is used in calculating the risk category and may not be a reliable indication of the future risk profile of the Fund.

The Fund is in risk category 4 as its price has experienced moderate rises and falls historically.

The Fund has little exposure to credit or cash flow risk. There are no borrowings or unlisted securities of a material nature and so there is little exposure to liquidity risk. The main risks it faces from its financial instruments are market price, foreign currency and interest rate risk. The ACD reviews the policies for managing these risks in order to follow and achieve the investment objectives.

**UBS Multi-Asset Income Fund**

The fund seeks to provide income, through a diversified portfolio of investments. Capital growth will not be a primary consideration, although opportunities for growth may occur if market conditions are favourable.

The fund will invest in a mix of transferrable securities including domestic and international equities and bonds, units in collective investment schemes, warrants, money market instruments, deposits, and cash or near cash, as the Investment Manager deems appropriate. There are no geographical restrictions on the countries of investment.

The Fund may use a range of derivative instruments which include foreign exchange, forward and futures contracts, swaps and options and other derivatives for investment purposes and / or to manage interest rate and currency exposures.

Index futures and other derivatives are used to manage market exposure inherent in an invested portfolio. Increasing or reducing market and currency exposure will entail the use of long or net short positions in some derivative instruments.

#### Risk profile

The main risks arising from the funds instruments are market price risk and foreign currency risk. Market price risk is the uncertainty about future price movements of the financial instruments the fund is invested in. Foreign currency risk is the risk that the value in the funds investments will fluctuate as a result in foreign exchange rates. Where the fund invests in overseas securities, the balance sheet can be affected by these funds due to movements in foreign exchange rates.

Investments in less developed markets may be more volatile than investments in more established markets. Less developed markets may have additional risks due to less established market practices. Poor liquidity may result in a holding being sold at a less favourable price, or another holding having to be sold instead.

Bonds carry varying levels of underlying risk, including default risk, dependent upon their type. These range from gilts, which carry limited levels, to speculative/non-investment grade corporate bonds, that carry higher levels of risk but with the potential for greater capital growth.

Over 35% of the fund may be invested in securities issued by any one body.

The fund will use derivatives as part of its investment capabilities. This allows it to take 'short positions' in some investments and it can sell a holding they do not own, on the anticipation that its value will fall. These instruments carry a material level of risk and the fund could potentially experience higher levels of volatility should the market move against them.

In order to trade in derivative instruments they enter into an agreement with various counterparties. Whilst they assess the credit worthiness of each counterparty, the fund is at risk that it may not fulfil its obligations under the agreement.

In aiming to reduce the volatility of the fund they utilise a risk management process to monitor the level of risk taken in managing the portfolio, however there is no guarantee that this process will work in all instances.

## Glossary

**Affordable Housing Grants** – grants given to Registered Providers to facilitate the provision of affordable housing.

**Arlingclose** – the Council's treasury management advisors

**Asset Quality Review (AQR)** – a review conducted by the ECB and national competent authorities examine whether assets were properly valued on a banks' balance sheet at 31 December 2013. It made banks comparable across national borders, by applying common definitions for previously diverging concepts and a uniform methodology when assessing balance sheets. The review provides the ECB with substantial information on the banks that will fall under its direct supervision and will help its efforts in creating a level playing field for supervision in future.

**Authorised Limit** – the maximum amount of external debt at any one time in the financial year

**Bail in risk** – following the financial crisis of 2008 when governments in various jurisdictions injected billions of dollars into banks as part of bail-out packages, it was recognised that bondholders, who largely remained untouched through this period, should share the burden in future by making them forfeit part of their investment to “bail-in” a bank before taxpayers are called upon.

A bail in takes place before a bankruptcy and under current proposals, regulators would have the power to impose losses on bondholders while leaving untouched other creditors of similar stature, such as derivatives counterparties. A corollary to this is that bondholders will require more interest if they are to risk losing money to a bail-in.

**Balances and Reserves** – accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure

**Bank of England** – the central bank for the UK. It has a wide range of responsibilities, including act as the Government's bank and the lender of last resort, it issues currency and, most importantly, oversees monetary policy.

**Bank Rate** – the Bank of England base rate

**Bank Recovery and Resolution Directive (BRRD)** – this directive ensures that EU member states have a harmonised toolkit to deal with the failure of banks and investment firms. It will make the EU financial system less vulnerable to shocks and contagion

**Banks – Secured** – covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are

secured on the banks assets, which limits the potential losses in the unlikely event of insolvency and means they are exempt from bail in.

**Banks – Unsecured** – accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. Subject to the risk of credit loss via a bail in should the regular determine that the bank is failing or likely to fail.

**Bonds** – bonds are debt instruments issued by government, multinational companies, banks and multilateral development banks. Interest is paid by the issuer to the bond holder at regular pre-agreed periods. The repayment date of the principal is also set at the outset.

**Capital expenditure** – expenditure on the acquisition, creation or enhancement of capital assets

**Capital Financing Requirement (CFR)** – the Council's underlying need to borrow for a capital purpose, representing the cumulative capital expenditure of the Council that has not been financed

**CCLA** – the local authority property investment fund

**Certainty rate** – the government has reduced by 20 basis points (0.20%) the interest rates on loans via the Public Works Loan Board (PWLB) to principal local authorities who provide information as specified on their plans for long-term borrowing and associated capital spending.

**Certificates of deposit** – Certificates of deposit (CDs) are negotiable time deposits issued by banks and building societies and can pay either fixed or floating rates of interest. They can be traded on the secondary market, enabling the holder to sell the CD to a third party to release cash before the maturity date.

**CIPFA** - the Chartered Institute of Public Finance and Accountancy. The institute is one of the leading professional accountancy bodies in the UK and the only one which specialises in the public sector. It is responsible for the education and training of professional accountants and for their regulation through the setting and monitoring of professional standards. Uniquely among the professional accountancy bodies in the UK, CIPFA has responsibility for setting accounting standards for a significant part of the economy, namely local government. CIPFA's members work, in public service bodies, in the national audit agencies and major accountancy firms.

**CLG** – department of Communities and Local Government

**Consumer Price Index (CPI)** – measures changes in the price level of a market basket of consumer goods and services purchased by households.

**Corporates** – loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent.

**Corporate bonds** – corporate bonds are those issued by companies. Generally, however, the term is used to cover all bonds other than those issued by governments. The key difference between corporate bonds and government bonds is the risk of default.

**Cost of Carry** - costs incurred as a result of an investment position, for example the additional cost incurred when borrowing in advance of need, if investment returns don't match the interest payable on the debt.

**Counterparty** – the organisation the Council is investing with

**Covered bonds** – a bond backed by assets such as mortgage loans (covered mortgage bond). Covered bonds are backed by pools of mortgages that remain on the issuer's balance sheet, as opposed to mortgage-backed securities such as collateralised mortgage obligations (CMOs), where the assets are taken off the balance sheet.

**Credit default swaps (CDS)** – similar to an insurance policy against a credit default. Both the buyer and seller of a CDS are exposed to credit risk. The buyer effectively pays a premium against the risk of default.

**Credit Rating** – an assessment of the credit worthiness of an institution

**Creditworthiness** – a measure of the ability to meet debt obligations

**Deposit Guarantee Scheme Directive (DGSD)** – directive which requires EU member states to introduce at least one deposit guarantee scheme in their jurisdiction to provide protection for depositors and to reduce the risk of bank runs.

**Derivative investments** – derivatives are securities whose value is derived from the some other time-varying quantity. Usually that other quantity is the price of some other asset such as bonds, stocks, currencies, or commodities.

**Derivatives** – financial instruments whose value, and price, are dependent on one or more underlying assets. Derivatives can be used to gain exposure to, or to help protect against, expected changes in the value of the underlying investments. Derivatives may be traded on a regulated exchange or traded 'over the counter'.

**Diversification / diversified exposure** – the spreading of investments among different types of assets or between markets in order to reduce risk.

**DMADF** – Debt Management Account Deposit Facility operated by the DMO where users can place cash in secure fixed-term deposits. Deposits are guaranteed by the government and therefore have the equivalent of the sovereign credit rating.

**DMO** – debt management office. An Executive Agency of Her Majesty's Treasury (HMT) with responsibilities including debt and cash management for the UK Government, lending to local authorities and managing certain public sector funds.

**EIP Loans** – Equal Instalments of Principal. A repayment method whereby a fixed amount of principal is repaid with interest being calculated on the principal outstanding

**European Central Bank (ECB)** – the central bank responsible for the monetary system of the European Union (EU) and the euro currency. Their responsibilities include to formulate monetary policy, conduct foreign exchange, hold currency reserves and authorise the issuance of bank notes.

**European Investment Bank (EIB)** – the European Investment Bank is the European Union's non-profit long-term lending institution established in 1958 under the Treaty of Rome. It is a “policy driven bank” whose shareholders are the member states of the EU. The EIB uses its financing operations to support projects that bring about European integration and social cohesion.

**Federal Reserve Bank (Fed)** – the central bank of the US and the most powerful institution of the world.

**Finance Lease** - a finance lease is a lease that is primarily a method of raising finance to pay for assets, rather than a genuine rental. The latter is an operating lease. The key difference between a finance lease and an operating lease is whether the lessor (the legal owner who rents out the assets) or lessee (who uses the asset) takes on the risks of ownership of the leased assets. The classification of a lease (as an operating or finance lease) also affects how it is reported in the accounts.

**Floating rate notes** – floating rate notes (FRNs) are debt securities with payments that are reset periodically against a benchmark rate, such as the three month London inter-bank offer rate (LIBOR). FRNs can be used to balance risks incurred through other interest rate instruments in an investment portfolio.

**FTSE** – a company that specialises in index calculation. Co-owners are the London Stock Exchange and the Financial Times. The FTSE 100 is an index of blue chip stocks on the London Stock Exchange.

**Gilts** – long term fixed income debt security (bond) issued by the UK Government and traded on the London Stock Exchange

**Government** – loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail in, and there is an insignificant risk of insolvency.

**Gross Domestic Product** – the monetary value of all finished goods and services produced within a country's borders in a specific time period, although it is usually calculated on an annual basis.

**Housing Grants** – see Affordable Housing Grants

**Illiquid** – cannot be easily converted into cash

**Interest rate risk** – the risk that unexpected movements in interest rates have an adverse impact on revenue due to higher interest paid or lower interest received.

**Liability benchmark** – the minimum amount of borrowing required to keep investments at a minimum liquidity level (which may be zero)

**LIBID** – London Interbank BID Rate – the interest rate at which London banks are willing to borrow from one another

**LIBOR** - London Interbank Offer Rate – the interest rate at which London banks offer one another. Fixed every day by the British Bankers Association to five decimal places.

**Liquidity risk** – the risk stemming from the inability to trade an investment (usually an asset) quickly enough to prevent or minimise a loss.

**M&G** – M&G Global Dividend fund. The fund invests mainly in global equities.

**Market risk** – the risk that the value of an investment will decrease due to movements in the market.

**Mark to market accounting** – values the asset at the price that could be obtained if the assets were sold (market price)

**Maturity loans** – a repayment method whereby interest is repaid throughout the period of the loan and the principal is repaid at the end of the loan period.

**Minimum Revenue Provision (MRP)** - the minimum amount which must be charged to an authority's revenue account each year and set aside towards repaying borrowing

**Moody's** - a credit rating agency. They provide international financial research on bonds issued by commercial and government entities. They rank the creditworthiness of borrowers using a standardised ratings scale which measures expected investor loss in the event of default. They rate debt securities in several markets related to public and commercial securities in the bond market.

**Money Market** - the market in which institutions borrow and lend

**Money market funds** – an open-end mutual fund which invests only in money markets. These funds invest in short-term debt obligations such as short-dated government debt, certificates of deposit and commercial paper. The main goal is the preservation of principal, accompanied by modest dividends. The fund's net asset value remains constant (e.g. £1 per unit) but the interest rates does fluctuate. These are liquid investments, and therefore, are often used by financial institutions to store money that is not currently invested. Risk is extremely low due to the high rating of the MMFs; many have achieved AAA credit status from the rating agencies:

- Constant net asset value (CNAV) refers to funds which use amortised cost accounting to value all of their assets. They aim to maintain a net asset value (NAV), or value of a share of the fund, at £1 and calculate their price to two decimal places known as “penny rounding”. Most CNAV funds distribute income to investors on a regular basis (distributing share class), though some may choose to accumulate the income, or add it on to the NAV (accumulating share class). The NAV of accumulating CNAV funds will vary by the income received.
- Variable net asset value (VNAV) refers to funds which use mark-to-market accounting to value some of their assets. The NAV of these funds will



vary by a slight amount, due to the changing value of the assets and, in the case of an accumulating fund, by the amount of income received.

This means that a fund with an unchanging NAV is, by definition, CNAV, but a fund with a NAV that varies may be accumulating CNAV or distributing or accumulating VNAV.

**Money Market Rates** – interest rates on money market investments

**Monetary Policy Committee** – the regulatory committee of the Central Bank that determine the size and rate of growth of the money supply, which in turn, affects interest rates.

**Multilateral Investment banks** – International financial institutions that provide financial and technical assistance for economic development

**Municipal Bonds Agency** – an independent body owned by the local government sector that seeks to raise money on the capital markets at regular interval to on-lend to participating local authorities.

**Non Specified Investments** - all types of investment not meeting the criteria for specified investments.

**Operational Boundary** – the most likely, prudent but not worst case scenario of external debt at any one time

**Pooled Funds** – investments are made with an organisation who pool together investments from other organisations and apply the same investment strategy to the portfolio. Pooled fund investments benefit from economies of scale, which allows for lower trading costs per pound, diversification and professional money management.

**Project rate** – the government has reduced by 40 basis points (0.40%) the interest rates on loans via the Public Works Loans Board (PWLB) for lending in respect of an infrastructure project nominated by a Local Enterprise Partnership (LEP).

**Prudential Code** – a governance procedure for the setting and revising of prudential indicators. Its aim is to ensure, within a clear framework, that the capital investment plans of the Council are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good practice.

**Prudential Indicators** – indicators set out in the Prudential Code that calculates the financial impact and sets limits for treasury management activities and capital investment

**Prudential Regulation Authority (PRA)** – is responsible for the prudential regulation and supervision of around 1,700 banks, building societies, credit unions, insurers, and major investment firms. It sets standards and supervises financial institutions at the level of the individual firm.

**PWLB (Public Works Loans Board)** - a central government agency which provides long- and medium-term loans to local authorities at interest rates only slightly higher than

those at which the Government itself can borrow. Local authorities are able to borrow to finance capital spending from this source.

**Quantitative easing (QE)** – a type of monetary policy used by central banks to stimulate the economy when standard monetary policy has become ineffective. It is implemented by buying specified amounts of financial assets from commercial banks and other private institutions, raising the prices of those financial assets and lowering their yield, while simultaneously increasing the monetary base.

**Registered Providers (RPs)** – also referred to as Housing Associations.

**Repo** - a repo is an agreement to make an investment and purchase a security (usually bonds, gilts, treasuries or other government or tradeable securities) tied to an agreement to sell it back later at a pre-determined date and price. Repos are secured investments and sit outside the bail-in regime.

**Reserve Schemes** – category of schemes within the General Fund capital programme that are funded from earmarked reserves, for example the Car Parks Maintenance reserve or Spectrum reserves.

**SME (Small and Midsize Enterprises)** – a business that maintains revenue or a number of employees below a certain standard.

**Sovereign** – the countries the Council are able to invest in

**Specified Investments** - Specified investments are defined as:

- a. denominated in pound sterling;
- b. due to be repaid within 12 months of arrangement;
- c. not defined as capital expenditure; and
- d. invested with one of:
  - i. the UK government;
  - ii. a UK local authority, parish council or community council, or
  - iii. a body or institution scheme of high credit quality

**Stable Net Asset Value money market funds** – the principle invested remains at its invested value and achieves a return on investment

**Standard & Poors (S&P)** – a credit rating agency who issues credit ratings for the debt of public and private companies, and other public borrowers. They issue both long and short term ratings.

**Subsidy Capital Financing Requirement** – the housing capital financing requirement set by the Government for Housing Subsidy purposes

**SWAP Bid** – a benchmark interest rate used by institutions

**SWIP** – SWIP Absolute Return Bond fund. They invest in fixed income securities, index linked securities, money market transactions, cash, near-cash and deposits.

**Temporary borrowing** – borrowing to cover peaks and troughs of cash flow, not to fund spending

**Treasury Management** – the management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risk associated with those activities and the pursuit of optimum performance with those risks.

**Treasurynet** – the Council's cash management system

**Treasury Management Practices** – schedule of treasury management functions and how those functions will be carried out

**Treasury Management Strategy Statement** – also referred to as the TMSS.

**Voluntary Revenue Provision** – a voluntary amount charged to an authority's revenue account and set aside towards repaying borrowing.

**Working capital** – timing differences between income and expenditure (debtors and creditors)

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Corporate Governance and Standards Committee Report

Ward(s) affected: not applicable

Report of Director of Corporate Services

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Date: 16 June 2016

## **Annual report on Guildford Borough Council's compliance with Information Rights legislation in 2015**

### **Executive Summary**

This is the annual report of the Information Rights Officer to show how the Council has performed in compliance with the Information Rights legislation. In 2015 there was:

- A decrease in the number of formal requests for information under the Freedom of Information Act 2000, Environmental Information Regulations 2004 and Data Protection Act 1998 (subject access requests),
- an improvement in response timescales in relation to requests made under the Freedom of Information Act 2000 and Environmental Information Regulations 2004 receiving a response outside of the statutory timescales, though still below the ICO's informal monitoring threshold,
- a slight increase in the number of reported information risk incidents

### **Recommendation to Corporate Governance and Standards Committee**

That the action to be taken by officers as set out in this report, be approved.

#### Reason for Recommendation:

To ensure that the Council continues to improve its compliance with Information Rights legislation so it operates in an open manner whilst providing data privacy for individuals.

### **1. Purpose of Report**

- 1.1 The Information Rights Officer is required to provide an annual report on the Council's compliance with the Data Protection Act 1998, Freedom of Information

Act 2000 and the Environmental Information Regulations 2004 to the Corporate Governance and Standards Committee. .

- 1.2 This report is for the 2015 calendar year and covers the following areas:
- a) formal requests under the Freedom of Information Act (FOI) and the Environmental Information Regulations (EIRs) – analysis of the management information available;
  - b) Information Commissioner’s Office (ICO) investigations in respect of the above;
  - d) data protection and privacy, including a summary of reported data protection breaches;
  - e) Information Rights issues for 2016 and beyond.

## **2. Strategic Priorities**

- 2.1 Complying with the Information Rights legislation is consistent with the five fundamental themes set out in the Council’s Strategic Framework.
- 2.2 By promoting openness in the way the Council operates and data privacy for the individuals who use its services, we are able to support society in evolving a self-reliant and sustaining local community, while supporting our most vulnerable residents, who are often the subjects of the most sensitive information the Council holds.

## **3. Background**

- 3.1 Individuals and legal persons have the right to request any recorded information held by or on behalf of the Council. The Council must respond to these requests within 20 working days in all but exceptional cases. Environmental information held by the Council falls under separate, but similar, access rules – namely the Environmental Information Regulations 2004. For ease of reference, requests for environmental information are included with Freedom of Information requests in this report.
- 3.2 Section 7 of the Data Protection Act 1998 provides any living individual with the right to request their own personal data from the Council. The Council must deal with these requests within 40 calendar days. At the time of writing, we used a separate system (from FOI requests) as they always involve protectively marked information and so we keep them as confidential as our discovery process will allow.
- 3.3 Schedule 1, Part 1, Principle 7 of the Data Protection Act 1998 requires us to take appropriate technical and organisational measures against unauthorised or

unlawful use of personal data and against accidental loss or destruction of, or damage to, personal data. We have a procedure for staff to report information security risk incidents. The Information Rights Officer reports the outcomes of investigations to the Director of Resources, who is the Senior Information Risk Owner (SIRO). The Information Rights Officer provides an anonymised summary to the Corporate Governance Group each quarter.

#### **4 Performance with Freedom of Information Requests**

4.1 Appendix 1 – Table 1 shows the number of requests received in 2015 in comparison to the previous calendar year, the percentage processed on time and the number of referrals to the Information Commissioner’s Office (that we know about). The figures reveal:

- a 20 per cent reduction of the number of requests received compared to last year (the first such reduction since the Freedom of Information Act came into force),
- an improvement of response timescales by 17 percent, though still below the informal ICO threshold of 85 percent,
- a significant reduction in the number of known referrals to the Information Commissioner’s Office,
- the Council’s first order to release previously withheld information. At the time of writing, the Council was appealing this decision to the First Tier Tribunal (Information Rights).

4.2 Appendix 1 – Table 2 shows the number of requests received by each directorate during 2015 and the percentage completed on time. This shows that the two directorates with the highest number of requests are Community Services and Resources.

#### **5 Data Protection and Privacy**

5.1 Appendix 1 – Table 3 shows the Council’s performance in relation to Data Protection and Privacy. This shows a decrease in the number of requests and an improvement in response performance. Ten information risk incidents were reported to the Information Rights Officer but none were of a serious enough nature to report to the ICO.

5.2 Appendix 2 – Table 4 shows a summary of information risk incidents in 2015. Five of the risk incidents were confirmed as low level breaches for local management, whereas the other five were categorised as “near misses”. Two of the confirmed breaches involved use of the Multi-Functional Devices for printing (MFDs). The other three confirmed breaches relating to the Council Tax and Benefits processes.

#### **6 Future information rights issues**

6.1 The Information Rights Officer will leave the Council at the end of June 2016, which is likely to result in a review of the Information Rights Officer role.

## **Freedom of Information and Environmental Information Regulations**

- 6.1 The Council is in the process of implementing a new case management system for dealing with FOI and EIR requests. This is expected to go live in June 2016.

## **Data protection and privacy**

- 6.2 The new General Data Protection Regulation (GDPR), which was adopted in April 2016 requires public authorities to have a Data Protection Officer (and defines the role and status of the Data Protection Officer) and introduces new requirements on record-keeping, consent and data subject rights.
- 6.3 The GDPR also increases the maximum fine that can be imposed on organisations for failure to comply, from £500,000 to €20,000,000 (or 4 per cent of the previous year's annual turnover, whichever is greater). The GDPR is likely to have a significant impact on the Council's information management, which will be the subject of a further report by the Information Rights Officer.

## **7 Consultations**

- 7.1 This is a regular report and no formal consultation was necessary.

## **8 Equality and Diversity Implications**

- 8.1 No implications apply

## **9 Financial Implications**

- 9.1 This report does not propose any additional spending. However, the financial implications of a failure to comply with the Data Protection Act 1998 are considerable, as noted in paragraph 6.3.

## **10 Legal Implications**

- 10.1 The Council's compliance with the information rights legislation has direct legal implications and failure to do so can result in costly enforcement action and compensation claims as noted in paragraph 6.3.

## **11 Human Resource Implications**

- 11.1 There are no proposals in this report that have any direct human resource implications.

## **12. Summary of Actions**

- 12.1 Corporate Management Team will continue to monitor performance in relation to FOI and EIR requests.



- 12.2. The Information Rights Officer will report to Management Team on the suggested review of Data Protection at Guildford Borough Council in light of the GDPR.

**13. Conclusion**

- 13.1 The Council has made improvements in its handling of requests for information during 2015 and is in a position to continue to do so.
- 13.2 The Information Risk Incident reporting procedure appears to be well-established and although the number of information risk incidents increased slightly, they were all assessed as low impact. The Council has taken steps to address the vulnerabilities in each case.

**14. Background Papers**

- 14.1 General Data Protection Regulation

**15. Appendices**

- 15.1 Appendix 1 – Tables showing performance in relation to Freedom of Information and Environmental Information Regulation Requests and data protection and privacy

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## Report to Corporate Governance & Standards Committee on 2015 Compliance

### Appendix 1

*Table 1 - Freedom of Information (FOI) and Environmental Information Regulations (EIRs) during 2015 in comparison to 2014.*

	2014	2015	% +/- over prev. year	Comments
Number of formal requests	848	672	-20%	Since 2005, this was the first decrease in the annual number of requests received
Performance (% of requests dealt with within statutory 20 working days)	69%	81%	+17%	Performance did not meet the Information Commissioner's minimum compliance threshold of 85 per cent.
Number of known referrals to the ICO	9	5	-44%	<p><b>FER0567827</b> (Our reference 1865): ICO received appeal but did not contact us again in relation to the investigation</p> <p><b>FS50580755</b> (Our reference: 2095): ICO closed the case and did not proceed to Decision Notice</p> <p><b>FER0594317</b> (Our reference: 2540): Decision in Council's favour. However, at the time of writing the applicant had appealed to the First Tier Tribunal (FTT)</p> <p><b>FER0605501</b> (Our reference: 2679) Decision: Council ordered to release the withheld information. The Council has appealed to the FTT in respect of some of the information</p> <p><b>FER0611301</b> (Our reference: 2809) Decision in the Council's favour.</p>

Table 2 - the number of requests received by each directorate during 2015

Directorate	TOTAL Number of Requests 2015	2015 Late Responses	% On time
Chief Internal Auditor	4	2	50
Corporate Services (Democratic, Electoral, HR, Legal, Policy and Partnership, PR and Marketing, Web programme)	60	6	90
Development	72	7	90
Community Services	213	60	72
Environment	89	21	67
Resources	280	21	89
Management Team	9	1	89

Table 3 - The Council's performance in relation to data protection and privacy during 2015 in comparison to 2014

	2014	2015	%+ / (-) over 2014
Number of Subject Access Requests:	16	12	-25%
Percentage of requests resolved within 40 days	46%	66%	+44%
Number of these known to have been appealed to the ICO and investigated	0	0	0
Number of security and or confidentiality breach allegations reported to the Information Rights Officer under the information risk incident report procedure	9*	10	+10%
Number of the above, which the Council reported to the ICO	2	0	Decrease

Table 4 – Summary of information risk incidents in 2015

Ref	Summary of incident	Cat	Outcome/Recommendations
IRB38	<p><b>System or process:</b> iNovem Planning Consultation Database.</p> <p><b>Date:</b> February 2015</p> <p><b>Information Asset Owner:</b> Director of Development</p> <p><b>Information Asset Administrator:</b> Principal Policy Officer</p> <p>A resident complained that they had received an unwanted communication about community climate change. The responsible officer had created the mailing list from the planning consultation database</p>	0	<p>This was a low risk incident but did highlight that the iNovem database was not managed according to documented local working procedures.</p> <p>The Principal Policy Officer agreed to produce local working procedures for the iNovem Consultation system to ensure any re use of the mailing list complied with the data protection principles.</p>
IRB39	<p><b>System or process:</b> Council Tax Benefits process</p> <p><b>Date:</b> March 2015</p> <p><b>Information Asset Owner:</b> Director of Resources</p> <p><b>Information Asset Administrator:</b> Council Tax Manager</p> <p>A resident received a Local Council Tax Support letter relating to someone else with their Housing Benefit Letter.</p>	1	<p>This was a confirmed information risk incident, which most likely occurred during the posting stage. The investigation of this incident and actions were incorporated with a system review arising from further incidents (IRB41 and IRB43)</p>
IRB40	<p><b>System or process:</b> Planning applications</p> <p><b>Date:</b> April 2015</p> <p><b>Information Asset Owner:</b> Director of Development</p> <p>Complainant alleged that objectors' email addresses had been published on the Council's website</p>	0	<p>Unconfirmed. No evidence of the allegation was found and the complainant did not respond to a request for a link to the web page in question.</p>

Ref	Summary of incident	Cat	Outcome/Recommendations
IRB41	<p><b>System or process:</b> Benefits and Rents Notifications matching process</p> <p><b>Date:</b> June 2015</p> <p><b>Information Asset Owner:</b> Director of Resources</p> <p><b>Information Asset Administrator:</b> Council Tax Manager</p> <p>Resident contacted the Council because she had received a Housing Benefit award notice relating to another resident together with her own.</p>	1	<p>This was a confirmed risk incident. The Council Tax Manager carried out a full review of processes following the incidents IRB39, IRB41 and IRB43.</p>
IRB42	<p><b>System or process:</b> "Follow Me" printing on the Multi-Functional Devices (MFD).</p> <p><b>Information Asset Owner:</b> ICT Manager</p> <p><b>Date:</b> July 2016</p> <p><b>Information Asset Administrator:</b> not established at time of the incident but subsequently agreed to be the ICT Customer and Technical Support Manager</p> <p>An officer discovered a bundle of documents that had been printed on their local MFD. There were around 100 pages from various services and a substantial amount of the information was sensitive personal data. It transpired that printing initiated on Electra (near Revenues and Housing, New Millmead) was being produced on Scorpion (near Asset Management, Old Millmead). The officers using Electra had assumed there was a fault with that MFD as the printing had disappeared from their control screen and so they re-sent their documents and picked them up from an alternative MFD.</p>	1	<p>This was a confirmed risk incident that had potential to be more serious. The reason it was assessed as low level is because it was contained within the Council and no external disclosure took place.</p> <p>Responsibility for the MFDs had not been allocated and therefore no risk assessment had been carried out during the procurement and installation</p> <p>The cause of the problem was a floating IP address – a technical oversight when the MFDs were set up for use, which was subsequently corrected.</p> <p>Staff instructions for reporting printing problems and deleting print jobs were produced and posted at all MFD sites</p>

Ref	Summary of incident	Cat	Outcome/Recommendations
	<p>However, the original printing had been produced by Scorpion and was therefore in an insecure environment for several days until discovery.</p>		
IRB43	<p><b>System/Process:</b> Council Tax Support</p> <p><b>Information Asset Owner:</b> Director of Resources</p> <p><b>Information Asset Administrator:</b> Council Tax Manager</p> <p><b>Date:</b> July 2015</p> <p>A resident reported that she had received a Local Council Tax Support notification intended for someone else included in her own notification and returned the documents to the Council.</p>	1	<p>Outcome of review of processes affected by IRB39, IRB41 and IRB43</p> <p>Housing Benefit and LCTS Notification Procedures</p> <p>Matched bills and notifications are now presented to Reprographics in a revised format and crosschecked. The revised process was reviewed after two months and no further incidents reported.</p> <p>Auto matching using bar codes was under consideration as was use of an external supplier to print.</p>
IRB44	<p><b>System/Process:</b> Staff overtime/ email</p> <p><b>Information Asset Owner:</b> Director of Corporate Services, Director of Resources</p> <p><b>Information Asset Administrator:</b> Acting HR and Performance Manager, ICT Manager</p> <p><b>Date:</b> August 2015</p> <p>An email containing details of an officer's overtime payments was emailed from Street Cleaning to HR with an unrelated officer courtesy copied in error. No sensitive information was involved.</p>	0	<p>This was human error, which arose due to autocomplete being activated in Outlook. I have previously recommended a corporate switch-off of auto complete.</p>

Ref	Summary of incident	Cat	Outcome/Recommendations
IRB45	<p><b>System/Process:</b> Occupational Health Contract</p> <p><b>Information Asset Owner:</b> Director of Corporate Services</p> <p><b>Information Asset Administrator:</b> Head of HR &amp; Business Improvement</p> <p><b>Date:</b> August 2015</p> <p>A member of staff reported that they had found a confidential HR email on their printer. The email related to the Occupational Health Contract</p>	0	No evidence that personal information was involved
IRB46	<p><b>System/Process:</b> MFDs</p> <p><b>Information Asset Owner:</b> Director of Resources</p> <p><b>Information Asset Administrator:</b> Not established at time of incident</p> <p><b>Date:</b> October 2015</p> <p>Five documents containing personal information left on Storm printer</p>	1	<p>Delayed printing was the issue due to the document settings. The printer displayed an error message but produced the printing later on after the officer had left the vicinity.</p> <p>Larger staff guidance posters displayed at MFD sites and incorporated into training programme</p>
IRB47	<p><b>System/Process:</b> Debtors</p> <p><b>Information Asset Owner:</b> Director of Corporate Services</p> <p><b>Information Asset Administrator:</b> Head of Financial Services</p> <p><b>Date:</b> December 2015</p> <p>Debtors routed reminder letters and copy invoices to a different printer than normal and a member of staff from another service based near the location of the printer picked them up. This member of staff had no business 'need to know'.</p>	0	<p>Low level incident (near miss rather than breach)</p> <p>No sensitive or personal information was involved but due to the potential for a repeat incident involving sensitive information, the Head of Financial Service carried out a risk assessment and reviewed local working procedures.</p>



**Cat (category)**

0 - near miss

1 – Locally managed incident

2 (and above) – requires report to the Information Commissioner's Office.

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Corporate Governance and Standards Committee Report

Report of the Managing Director (Chief Finance Officer)

Author: Claire Morris, Head of Financial Services

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Date: 16 June 2016

## **External Audit 2016-17 Fee Letter and the future of Local Government External Audit**

### **Executive Summary**

The Council's external auditors, Grant Thornton, have submitted their audit fee letter for 2016-17. The letter is attached as **Appendix 1**, it provides a broad summary of the programme of work that Grant Thornton intend to carry out during 2016-17. The overall fee for the core audit is the same as the fee charged in 2015-16 however, the fee for grant claim work has increased by 15% due to an increase in risk and level of work necessary to complete the audit of the housing subsidy claim following the Council's claim being qualified by the auditors in 2014-15. The overall fee of £82,532 can be managed within the overall budget for the resources directorate.

Central Government closed the Audit Commission in March 2015. This report also provides Councillors with an update on arrangements for local body audit following its closure.

### **Recommendation**

That the Corporate Governance and Standards Committee:

- (1) approves the external audit fee submitted by Grant Thornton, and makes any comments it feels relevant; and
- (2) notes the arrangements for local body audit following the closure of the Audit Commission

### Reason(s) for Recommendation:

To enable the Committee to consider and comment on the planned audit fee.

## **1. Purpose of Report**

- 1.1 This report provides a summary of the proposed external audit fee and the work programme for the audit of the 2016-15 accounts, value for money opinion and the grant certification work as set out in the fee letter attached at **Appendix 1**. Officers recommend that the Committee notes the fee and makes any comment that it feels relevant

## **2. Strategic Framework**

- 2.1 The Developing your Council theme within the Corporate Plan 2013-16 sets out the Council's key priorities of improving value for money and efficiency in service delivery and improving the Council's governance structures. The annual audit by Grant Thornton contributes to the achievement of those priorities.

## **3. Background**

- 3.1 When the external audit function transferred to private firms in 2012, the Audit Commission proposed that the scale fee (which covers the core audit) would reduce by 40% and remain the same until the audit for 2016-17. The fee for the 2016-17 core audit will be £57,533; this is the same as the core audit fee for 2015-16. Grant Thornton will prepare and produce a detailed audit plan for submission to the Corporate Governance and Standards Committee in March 2017; however the fee letter contains details of the scope of work covered by the core audit fee.
- 3.2 The external auditor charges a separate fee for Grant Certification work. The indicative fee for 2015-16 is £24,999, which is an increase of £11,074 since 2015-16. The actual fee charged may vary from the indicative fee, depending on the level of work necessary to complete the grant certification work. The certification work covers the audit of the Housing Benefit Subsidy Claim and the increase in the fee reflects the increase in the level of work required following the qualification of the 2014-15 claim.
- 3.3 Overall, there is a 15% increase in audit fees from £71,458 in 2015-16 to £82,532 in 2016-17. The increase can be managed within the budget for the resources directorate.

### **The future of External Audit in Local Government**

- 3.4 Following enactment of the Local Audit and Accountability Act 2014 (LA&AA 2014), the Audit Commission ceased to exist on 31 March 2015. Prior to its demise, the Audit Commission let a series of framework contracts for the audit of local bodies which will run until 2018 (or 2021 if the government decides to extend the contracts by three years).
- 3.5 Since the closure of the Audit Commission, central government has put the following arrangements in place that relate to the role and functions previously carried out by the Commission:

- 1) Responsibility for managing the audit contracts for local government bodies, along with the Commission's statutory functions for audit (e.g., setting the standards of performance, appointing auditors, setting and determining fees) and value for money work has transferred to an independent private company created by the Local Government Association (LGA).
  - 2) The Commission's responsibility for certifying the use of grant monies from central government by audited bodies was not provided for by the LA&AA 2014 and will therefore cease with the exception of certification arrangements for the housing benefit subsidy claim.
  - 3) The National Audit Office has taken on responsibility for the Code of Audit Practice and guidance, which sets out the way in which auditors carry out their functions. They have also taken on responsibility for conducting national value-for-money studies.
  - 4) The Financial Reporting Council (FRC) has become the overall regulator of audit standards, mirroring arrangements under the Companies Act 2006.
  - 5) The Chartered Institute of Public Finance and Accountancy (CIPFA) and other professional accountancy bodies have been recognised as the supervisory bodies charged with putting in place eligibility rules for those firms wanting to be appointed as local public auditors and the qualifications and experience required to be able to sign off a local audit report.
  - 6) Statutory responsibility for the National Fraud Initiative (NFI) has transferred to the Cabinet Office. The Commission's work in helping to tackle fraud and corruption is transferring to a new Counter Fraud Centre being established by CIPFA.
- 3.6 Once the current audit contracts run out in 2018, local bodies will be able to appoint their own external and independent auditor and will need to do so by 31<sup>st</sup> December preceding the relevant financial year. The maximum length of appointment is five years. The decision will need to be made by full Council and cannot be delegated. Local bodies have to establish, consult and take into account the advice of an independent auditor panel on the selection and appointment of a local auditor. Sector led collective procurement of local audit services is facilitated within the regulations.
- 3.7 This means that, Guildford Borough Council will need to procure its own external auditor by 31 December 2017. It will also need to establish its own independent auditor panel. However, the LGA are consulting on the establishment of a joint procurement exercise for principal councils. This would mean that the procurement of local government body audits is undertaken in large lots, as happened when the audit commission procured the current contracts. Guildford Borough Council has expressed an interest in being part of the LGA procurement exercise and is awaiting further guidance.
- 3.8 If this does not happen, there is broad agreement between the Surrey Treasurers group (i.e., the Chief Finance Officers for all the Surrey authorities) that a joint procurement exercise would be preferable across the Surrey Authorities.

**4. Financial Implications**

- 4.1 There is budget provision in the 2016-17 estimates for the audit fees and the fees for other services provided by Grant Thornton.

**5. Legal Implications**

- 5.1 The Local Audit and Accountability Act 2014 states that the accounts of a relevant authority for a financial year must be audited:
- a) in accordance with the Act and provision made under it, and
  - b) by an auditor (a “local auditor”) appointed in accordance with the Act or provision made under it.
- 5.2 A local auditor must, in carrying out the auditor’s functions in relation to the accounts of a relevant authority, comply with the code of audit practice applicable to the authority that is for the time being in force. The current code of practice for UK Local Government is the Code of Audit Practice issued by the Audit Commission in 2010. The code adopts the International Standards of Auditing (ISAs) as issued by the FRC.

**6. Human Resource Implications**

- 6.1 There are no human resource implications to the report

**7. Conclusion**

- 7.1 The report outlines Grant Thornton’s fee letter for 2016-17. The audit fee has increased by £11,074 since 2015-16.

**8. Background Papers**

None

**9. Appendices**

Appendix 1 – Grant Thornton Letter: Planned Audit Fee for 2016-17



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23 March 2016

Dear Sue

### **Planned audit fee for 2016/17**

The Local Audit and Accountability Act 2014 provides for the introduction of a new framework for local public audit. Under these provisions, the Audit Commission closed in March 2015 and the Secretary of State for Communities and Local Government delegated some statutory functions from the Audit Commission Act 1998 to Public Sector Audit Appointments Limited (PSAA) on a transitional basis.

PSAA will oversee the Commission's audit contracts for local government bodies until they end in 2018, following the announcement by the Department for Communities and Local Government (DCLG) that it will extend transitional arrangements until 2017/18. PSAA's responsibilities include setting fees, appointing auditors and monitoring the quality of auditors' work. Further information on PSAA and its responsibilities are available on the [PSAA website](#).

### **Scale fee**

PSAA prescribes that 'scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timescales'.

There are no planned changes to the overall work programme for local government audited bodies for 2016/17, bar the adoption of new measurement requirements for the Highways Network Asset. Our current understanding is that the Council does not possess a Highways Network Asset as defined by CIPFA and therefore we do not expect that additional work or fee will be required in this respect.

PSAA have proposed that 2016/17 scale audit fees (excluding work completed on the Highways Network Asset) are set at the same level as the scale fees applicable for 2015/16. The Council's scale fee for 2016/17 has been set by PSAA at £57,533.

The audit planning process for 2016/17, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

### **Scope of the audit fee**

Under the provisions of the Local Audit and Accountability Act 2014, the National Audit Office (NAO) is responsible for publishing the statutory Code of Audit Practice and guidance for auditors from April 2015. Audits of the accounts for 2016/17 will be undertaken under this Code, on the basis of the work programme and scale fees set out on the [PSAA website](#). Further information on the NAO Code and guidance is available on the [NAO website](#).

The scale fee covers:

- our audit of your financial statements
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion)
- our work on your whole of government accounts return (if applicable).

As outlined above, the fee for any additional work in respect of the Highways Network Asset is not included in this fee.

PSAA will agree fees for considering objections from the point at which auditors accept an objection as valid, or any special investigations, as a variation to the scale fee.

### **Value for Money conclusion**

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The NAO issued its guidance for auditors on value for money work in November 2015. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

### **Certification of grant claims and returns**

The Council's indicative grant certification fee has been set by PSAA at £24,999. This fee covers the cost of certifying the housing benefit subsidy claim only and is based on final 2014/15 certification fees.

The indicative fee for certification work is based on the expectation that you provide the auditor with complete and materially accurate claims and returns, with supporting working papers, within agreed timeframes.

Assurance engagements for other schemes will be subject to separate arrangements and fees agreed between the grant-paying body, the Council and ourselves



**Billing schedule**

Fees will be billed as follows:

<b>Main Audit fee</b>	<b>£</b>
September 2016	14,383.25
December 2016	14,383.25
March 2017	14,383.25
June 2017	14,383.25
<b>Total</b>	<b>57,533.00</b>
<hr/>	
<b>Grant Certification</b>	
December 2017	24,999.00

**Outline audit timetable**

We will undertake our audit planning and interim audit procedures in early 2017. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VfM conclusion will be completed in July 2017 and work on the whole of government accounts return, if required, at the same time.

<b>Phase of work</b>	<b>Timing</b>	<b>Outputs</b>	<b>Comments</b>
Audit planning and interim audit	January to March 2017	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VfM.
Final accounts audit	July 2017	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.
VfM conclusion	By July 2017	Audit Findings (Report to those charged with governance)	As above
Whole of government accounts	July 2017	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	September to October 2017	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.
Grant certification	December 2017	Grant certification report	A report summarising the findings of our grant certification work

**Our team**

The key members of the audit team for 2016/17 are:

	<b>Name</b>	<b>Phone Number</b>	<b>E-mail</b>
Engagement Lead	Christian Heeger	01293 554 145	<a href="mailto:christian.heeger@uk.gt.com">christian.heeger@uk.gt.com</a>
Engagement Manager	Keith Hosea	020 7728 3231	<a href="mailto:keith.j.hosea@uk.gt.com">keith.j.hosea@uk.gt.com</a>
In Charge Auditor	Sebastian Evans	020 7728 3451	<a href="mailto:sebastian.evans@uk.gt.com">sebastian.evans@uk.gt.com</a>

**Additional work**

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

**Quality assurance**

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Paul Dossett, our Public Sector Assurance regional lead partner, via [paul.dossett@uk.gt.com](mailto:paul.dossett@uk.gt.com)

Yours sincerely



Christian Heeger

Engagement Lead

For Grant Thornton UK LLP

Corporate Governance and Standards Committee Report

Ward(s) affected: All

Report of Director of Corporate Services

Author: Ciara Swan

Tel: 01483 444058

Email: ciara.swan@guildford.gov.uk

Date: 16 June 2016

## **Corporate Governance and Standards Committee Work Programme**

### **Recommendation**

That the Committee considers and approves its updated work programme for 2016-17, as detailed in Appendix 1 to this report.

#### Reason for recommendations:

To allow the Committee to maintain and update its work programme for the 2016-17 municipal year.

### **1. Purpose of report**

- 1.1 The draft work programme sets out the items to be considered by this Committee for the 2016-17 municipal year.

### **2. Draft work programme**

- 2.1 The draft work programme for the Corporate Governance and Standards Committee is set out in Appendix 1 to this report. The timing of the reports contained in the work programme is subject to change, in consultation with the chairman. The items to be considered include decisions to be made by the Executive and full Council, with consideration of any comments or recommendations made by this Committee.

### **3. Financial Implications**

- 3.1 There are no financial implications arising directly from this report.

### **4. Legal Implications**

- 4.1 There are no legal implications arising directly from this report.

**5. Human Resource Implications**

5.1 There are no human resources implications arising directly from this report.

**6. Background Papers**

- Guildford Borough Council Forward Plan
- Corporate Management Team Forward Plan

**7. Appendices**

Appendix 1 – Corporate Governance and Standards Committee draft work programme 2016-17

## CORPORATE GOVERNANCE AND STANDARDS COMMITTEE DRAFT WORK PROGRAMME

28 July 2016

Subject	Details of decision to be taken	Decision to be taken by	Contact Officer
External Audit Update	To consider the update report from the Council's External Auditors	Corporate Governance and Standards Committee	Claire Morris 01483 444827
2015-16 Draft Statement of Accounts	To note the draft statement of accounts signed by the Chief Finance Officer for 2015-16	Executive 28.06.16 Council	Claire Morris 01483 444827
Annual Report of the Monitoring Officer on Standards Allegations	To note decisions taken on ethical standards allegations against borough and parish councillors	Corporate Governance and Standards Committee	Satish Mistry 01483 444042
Update on G Live Incident	To receive an update on the G Live incident	Corporate Governance and Standards Committee	Sue Sturgeon 01483 444800

## CORPORATE GOVERNANCE AND STANDARDS COMMITTEE DRAFT WORK PROGRAMME

22 September 2016

Subject	Details of decision to be taken	Decision to be taken by	Contact Officer
Freedom of Information Compliance update	To consider the update report on the Council's performance in dealing with Freedom of Information requests.	Corporate Governance and Standards Committee	Vincenzo Ardilio 01483 444053
Statutory Officers' Report	To receive a update from the Council's statutory officers	Corporate Governance and Standards Committee	Sue Sturgeon 01483 444800 Satish Mistry 01483 444042
2015-16 Audit Findings Report	To note the external auditor's findings and managements response in the Action Plan	Corporate Governance and Standards Committee	Claire Morris 01483 444827
Financial Monitoring 2016-17 Period 3 (April to June 2016)	To note the results of the Council's financial monitoring	Corporate Governance and Standards Committee	Claire Morris 01483 444827
External Audit Update	To note the update report from the external auditor	Corporate Governance and Standards Committee	Claire Morris 01483 444827
Councillor Training Programme	To consider a report from the Councillors' Development Steering Group relating to councillor training and development	Corporate Governance and Standards Committee	Sophie Butcher 01483 444056

## CORPORATE GOVERNANCE AND STANDARDS COMMITTEE DRAFT WORK PROGRAMME

**24 November 2016**

Subject	Details of decision to be taken	Decision to be taken by	Contact Officer
Annual Audit Letter	To consider the Annual Audit Letter and Annual Governance Report for 2015-16	Executive	Claire Morris 01483 444827
External Audit Update	To note the update report from the external auditor	Corporate Governance and Standards Committee	Claire Morris 01483 444827
Financial Monitoring 2016-17 – Period 6 (April to September 2015)	To note the results of the Council's financial monitoring for the period April to September 2016	Corporate Governance and Standards Committee	Claire Morris 01483 444827
Treasury Management Activity Half-Year Monitoring Report 2016-17	To consider the report monitoring treasury management from April to September 2016	Executive Council	Victoria Worsfold 01483 444834
Summary of internal audit reports April 2016 to September 2016	To consider the summary of internal audit reports and progress on the internal audit plan for April to September 2016	Corporate Governance and Standards Committee	Joan Poole 01483 444854
Internal Audit Plan: Progress Report			

## CORPORATE GOVERNANCE AND STANDARDS COMMITTEE DRAFT WORK PROGRAMME

12 January 2017

Subject	Details of decision to be taken	Decision to be taken by	Contact Officer
Treasury Management Strategy 2017-2018	To recommend to Council the adoption of the revised Treasury Management Strategy and prudential indicators	Executive Council	Victoria Worsfold 01483 444834
Financial Monitoring 2016-17 Period 8 (April to November 2016)	To note the results of the Council's financial monitoring for the period April to November 2016	Corporate Governance and Standards Committee	Claire Morris 01483 444827
Statutory Officers' Report	To receive a update from the Council's statutory officers	Corporate Governance and Standards Committee	Sue Sturgeon 01483 444800 Satish Mistry 01483 444042
Freedom of Information Compliance Update	To consider the update report on the Council's performance in dealing with Freedom of Information requests.	Corporate Governance and Standards Committee	Vincenzo Ardilio 01483 444053



## CORPORATE GOVERNANCE AND STANDARDS COMMITTEE DRAFT WORK PROGRAMME

30 March 2017

Subject	Details of decision to be taken	Decision to be taken by	Contact Officer
Statutory Officers' Report	To receive a update from the Council's statutory officers	Corporate Governance and Standards Committee	Sue Sturgeon 01483 444800 Satish Mistry 01483 444042
Enquiries of those charged with governance	To agree the Committee's response to the external auditor's audit plan for 2016-17	Corporate Governance and Standards Committee	Claire Morris 01483 444827
Audit Plan	To note the external auditor's audit plan for 2016-17	Corporate Governance and Standards Committee	Claire Morris 01483 444827
Budget Monitoring	To receive a revenue budgetary monitoring report for Month 10 and capital monitoring report for Quarter 3	Corporate Governance and Standards Committee	Claire Morris 01483 444827
External Audit Update	To note the update report from the external auditor	Corporate Governance and Standards Committee	Claire Morris 01483 444827

## CORPORATE GOVERNANCE AND STANDARDS COMMITTEE DRAFT WORK PROGRAMME

### Unscheduled items

Subject	Details of decision to be taken	Decision to be taken by	Contact Officer
Single Equality Scheme and Action Plan	To review the Single Equality Scheme and Action Plan for 2012-15 (Year 1 and 2)	Corporate Governance and Standards Committee	Satish Mistry 01483 444042
Corporate Risk Strategy	Report on the Council's corporate risk strategy and risk management arrangements	Corporate Governance and Standards Committee	Satish Mistry 01483 444042
Review of the Constitution	To monitor and review the Constitution in line with the Committee's terms of reference and further to the 2014 substantial review and recent governance changes	Corporate Governance and Standards Committee	John Armstrong 01483 444102
Data Quality Management Strategy	To review the Data Quality Management Strategy	Corporate Governance and Standards Committee	Joan Poole 01483 444854
Review of the effectiveness of the Corporate Governance and Standards Committee	To review the effectiveness of the Corporate Governance and Standards Committee	Corporate Governance and Standards Committee	Satish Mistry 01483 444042