

## AUDIT COMMITTEE

**Tuesday, 13 February 2018**

**6.00 pm**

**Committee Room 1, City Hall**

Membership: Councillors Tony Speakman (Chair), Geoff Ellis (Vice-Chair), Thomas Dyer, Jim Hanrahan, Gary Hewson, Ronald Hills and Jackie Kirk

Substitute member(s): Councillors Paul Gowen

Independent Member: Jane Nellist

Officers attending: Democratic Services, John Scott and Rob Baxter

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## A G E N D A

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### SECTION A

Page(s)

**A TRAINING SESSION WILL BE HELD IMMEDIATELY PRIOR TO THE START OF THIS MEETING AT 5.00PM IN RELATION TO TREASURY MANAGEMENT TEA AND COFFEE WILL BE AVAILABLE FROM 4.45PM**

1. Confirmation of Minutes - 19 December 2017 3 - 10
2. Declarations of Interest  
  
Please note that, in accordance with the Members' Code of Conduct, when declaring interests members must disclose the existence and nature of the interest, and whether it is a disclosable pecuniary interest (DPI) or personal and/or pecuniary.
3. Draft External Audit Plan To Follow
4. Certification of Grant Claims 11 - 20
5. Review of Code of Corporate Governance 21 - 62
6. Prudential Indicators 2017/18 - 2020/21 and Treasury Management Strategy 2018/19 63 - 150
7. Internal Audit Progress Report 151 - 178
8. Internal Audit Plan 179 - 206
9. Audit Committee Work Programme 207 - 212



<b>Present:</b>	Councillor Tony Speakman ( <i>in the Chair</i> )
<b>Councillors:</b>	Thomas Dyer, Geoff Ellis, Jim Hanrahan, Gary Hewson, Ronald Hills and Jackie Kirk
<b>Independent Member:</b>	Jane Nellist
<b>Also Present:</b>	Mike Norman, KPMG
<b>Apologies for Absence:</b>	None.

**20. Confirmation of Minutes - 19 September 2017**

RESOLVED that the minutes of the meeting held on 19 September 2017 be confirmed.

**21. Matters Arising**

Councillor T Speakman, Chair, confirmed that following discussions held with the Chief Executive and Town Clerk regarding significant errors identified within the Audit of the 2016/17 financial accounts, he had received her assurance that should the issue arise in another year members of Audit Committee and the chair would be made aware of the problem by committee officers (Finance and Audit) as soon as possible after it had been identified and confirmed, and that adequate and appropriate resource would be available in Finance in future to prevent significant, reportable errors arising and their not being identified and corrected before the External Auditor was 'on the case'.

**22. Declarations of Interest**

No declarations of interest were received.

**23. Annual Governance Statement Monitoring**

Pat Jukes, Business Manager, Corporate Policy:

- a. presented an update on progress in those areas identified as 'significant governance issues' as set out in the 2016/17 Annual Governance Statement (AGS), and detailed at Appendix A of the report
- b. advised that Audit Committee had a role to review the council's governance arrangements including the production of the AGS
- c. highlighted two significant issues, Information Management and IT Disaster Recovery, which were now downgraded to amber risks with work ongoing to reach green status before the next meeting of Audit Committee, as detailed at paragraph 3.2 of the report
- d. updated members on two other areas, Partnership Companies and Loss of Compliance with the Lincoln Project Management Model, currently at green status however requiring a retained focus as detailed at paragraph 3.2 of the report

- e. requested that members of Audit Committee give consideration to the content of her report.

Members discussed the content of the report in further detail.

The Chair commended officers on good progress made in relation to addressing significant issues within the Annual Governance Statement which he hoped would further continue.

RESOLVED that the content of the report be noted and monitoring arrangements be continued.

#### **24. External Audit - Annual Audit Letter**

Rob Baxter, Interim Chief Finance Officer, presented a report for Audit Committee to receive and comment on the Annual Audit Letter provided by the Council's External Auditors (KPMG) from its 2016/17 audit of the Council (including audit of the 2016/17 financial statements and value for money conclusion), together with an external audit progress report.

Mike Norman, KPMG:

- a. presented the Annual Audit Letter 2016/17; although it was addressed to members of the authority, it was also intended to communicate issues to key external stakeholders including members of the public and would be placed on the Authority's website
- b. reported on the key headlines within the report
- c. confirmed that on 29 September 2017 an unqualified value for money conclusion had been issued for 2016/17, auditors were satisfied that the authority had appropriate arrangements in place for securing economy, efficiency and effectiveness in the use of its resources, looking at the Authority's arrangements for informed decision making, sustainable resource deployment and working with partners and third parties
- d. highlighted that the audit of the financial statements had identified material errors in the draft financial statements, which had been corrected in the published version
- e. acknowledged staffing difficulties faced by the finance team during the closedown process and in the first half of the financial year; management had agreed to the report recommendations aimed at ensuring the arrangements and working papers for the 2016/17 accounts were robust and effective and progress would be followed up on these matters as part of the 2017/18 Audit
- f. stated that a review of the authority's Annual Governance Statement and narrative report had concluded that they were consistent with the Auditor's understanding and did not identify any issues
- g. advised that the auditor's certificate issued on 29 September 2017 confirmed that their audit for 2016/17 was concluded in accordance with the requirements of the Local Authority and Accountability Act 2014 and the Code of Audit Practice

- h. reported on a final fee for the 2016/17 audit of £50,056 to include a fee variation to cover additional work required to complete the audit of Property Plant and Equipment (PPE) and the VFM conclusion as detailed within Appendix 2 of the report
- i. also presented an external audit progress report and technical update paper for members' information covering key messages centred on the following main areas:
  - Summary of work performed since September 2017
  - Summary of upcoming work
  - Audit planning
  - Technical update.

Members discussed the content of the report in further detail.

RESOLVED that the content of the Annual Audit Letter from KPMG be noted.

## **25. Internal Audit Progress Report**

John Scott, Audit Manager:

- a. presented the Internal Audit Progress Report to Audit Committee, incorporating the overall position reached so far and summaries of the outcome of audits completed during the period September - November 2017, as detailed at Appendix A
- b. highlighted that Audit Committee had the responsibility for receiving a regular progress report from Internal Audit on the delivery of the Internal Audit Plan as a key requirement of the public sector internal audit standards
- c. advised that the report covered the following main areas:
  - Progress Against the Plan
  - Summary of Audit Work
  - Implementation of Audit Recommendations
  - Current Areas of Interest Relevant to the Audit Committee
- d. highlighted audits carried out in the following areas given assurances as follows:
  - Housing Benefit (Key Controls): High Assurance
  - NNDR (Key Controls): High Assurance
  - Code of Corporate Governance: Substantial Assurance
  - IT Disaster Recovery: Substantial Assurance
  - Customer Experience Strategy: Substantial Assurance
  - IT - Applications: Substantial Assurance
  - Housing Repairs – Stores: Limited Assurance
- e. reported on other significant work ongoing in relation to:
  - County Council Elections – Claim for Expenses
  - Choice Based Lettings

- f. advised on audits currently in progress as detailed at Appendix 2 of the report and audit plan amendments approved by the Interim Chief Finance Officer at paragraph 8
- g. reported on high priority recommendations completed, due, overdue and not yet due at pages 54-55 of the report;
- h. provided performance information against targets for the 2017/18 audit year at 30 November 2017 as detailed at Appendix 4
- i. presented an updated version of outstanding recommendations due and not yet due as at 30 November 2017 at Appendix 5, including additional information showing further progress made since the previous committee meeting, as requested by members
- j. reported on other matters of interest including an update requested by the Chair at the previous Audit Committee meeting on resourcing issues within the Finance Team which now had a full key staffing compliment
- k. requested members' consideration on the content of the report.

Members discussed the content of the report in further detail.

Members queried what impact the General Data Protection Regulations (GDPR) recommendations would have on council services.

John Scott, Audit Manager, confirmed that GDPR would have a major impact on Council services. Action plans were in place to ensure everything was in order prior to its implementation in May 2018. Much work had already been completed, although further work would be carried out over the next few months. The Act was still in the process of evolving.

RESOLVED that the contents of the report and continuation of further monitoring arrangements be noted.

## **26. Appointment of External Auditors**

Rob Baxter, Interim Chief Finance Officer:

- a. advised that the Council's contract with our current external auditors (KPMG) ran out on 31 March 2018, although KPMG would still undertake the audit of the 2017/18 Statement of Accounts during June-July 2018
- b. confirmed that as part of the process for appointing our future external auditors, Council had approved opt-in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of its external auditors
- c. reported that for audits of the accounts from 2018/19, PSAA was responsible for appointing an auditor to Council's that had chosen to opt-in to its national auditor appointment arrangements; this Council had accepted the proposal from PSAA for the appointment of Mazars LLP to audit the accounts

- d. requested that Audit Committee note the appointment of Mazars LLP to audit the authority's accounts for a period of 5 years from 2018/19 commencing on 1 April 2018, as further detailed at paragraph 4 of the report.

Members discussed the content of the report in further detail.

RESOLVED that the appointment of Mazars LLP as the Council's external auditor for a period of 5 years from 1 April 2018 be noted by Audit Committee.

## **27. Whistleblowing Policy and Guidance**

John Scott, Audit Manager:

- a. presented an update to the Whistleblowing policy and guidance, part of a range of counter fraud policies reviewed every two years, or sooner if required
- b. defined a whistleblower as a person who worked for an organisation raising honest and reasonable concerns about a possible fraud, crime, danger or other serious risk that could threaten colleagues, service users, customers, members of the public or the success of an organisation, protected by UK law from dismissal, harassment or victimisation if such treatment occurred as a result of having made a whistle-blowing disclosure considered to be in the public interest
- c. advised that, although there were no material alterations to the Council's current whistleblowing policy it had been updated to reflect changes in personnel and other external links and reformatted to make presentation clearer
- d. invited Members comments on the revised Whistleblowing Policy as detailed at Appendix A to the report.

Members considered and commented on the content of the report.

RESOLVED that the updated Whistleblowing Policy be approved.

## **28. Fraud and Error Update Report (2017/18) 6 Months**

John Scott, Audit Manager:

- a. presented the six monthly fraud and error report 2017/18 for members' consideration, which covered the following main areas:
  - Update: Lincolnshire Counter Fraud Partnership
  - Position Statement: National Fraud Initiative
  - Fraud Work Within Housing Benefits and Other Areas
  - Update: Counter Fraud Outcomes
- b. outlined the key messages in relation to counter fraud arrangements as detailed at paragraph 2 to 3 of his report

- c. highlighted that successful delivery of the Council Tax Reduction (CTR) exercise was now more likely be rolled out across the other districts by 2019/20; an update would be given to Audit Committee in due course.
- d. detailed operational outcomes to help evaluate effectiveness within the existing counter fraud strategy as detailed at paragraph 4 of the report
- e. referred to the Counter Fraud Strategy work plan 2017/18 as detailed at Appendix A of his report.

Jane Nellist, Independent Member, referred to income from fraud initiatives, querying whether there were any available comparatives in terms of performance indicators to show benefits from these initiatives as justification for not making future cuts in this area of work.

John Scott, Audit Manager, agreed to provide an overall yearly reflection on improved income resulting from counter fraud initiatives to the next meeting of Audit Committee.

RESOLVED that:

1. An overall yearly reflection on improved income resulting from counter fraud initiatives be provided to the next meeting of Audit Committee.
2. The content of the report be noted.

## **29. Information Management Update**

John Scott, Audit Manager, on behalf of Becky Scott, Legal and Democratic Services Manager:

- a) presented an update in respect of the information management action plan in place in order to achieve compliance with the General Data Protection Regulation (GDPR) in force from 25 May 2018, including appointment to the new role of Data Protection Officer
- b) outlined progress in respect of the Data Protection training programme as follows:
  - Assistant Directors had agreed to monitor progress of the training programme and take responsibility through Service Managers Team for its implementation.
  - Take up for the DP e-learning training was improving, with managers working towards. 100% compliance.
- c) further outlined progress in relation to information management, now rated amber within the Annual Governance Statement, as detailed at paragraph 3 of the report
- d) outlined actions required within the Information Governance Training Needs Action Plan as detailed at Appendix A to the report, the GDPR Action Plan as detailed at Appendix B and the 6 month Communications Plan as detailed at Appendix C of the report



- e) advised that fees payable to the ICO would be in the region of £1,000 per year, an increase of £500, understood to assist the supervisory body to enforce the GDPR
- f) reported on a decrease in numbers of breaches reported, with no data breaches in this area since the Benefit notifications were outsourced in September 2017, and no complaints to the ICO or notifications by customers since the last report
- g) highlighted that funding would be made available to recruit to the Data Protection Officer role, once the post had been evaluated hopefully before Christmas 2017
- h) stated that the Information Governance Strategy and policies would be referred to Policy Scrutiny Committee on 20 March 2018 for comments prior to referral to Executive on 26 March 2018 in time for publication for the GDPR
- i) requested members' feedback on the content of the report.

Members discussed the content of the report in further detail.

The Chair recognised thanks given by the Legal and Democratic Services Manager to members of Audit Committee for their support in respect of arrangements being made ready for the implementation of GDPR. The chair thanked the officer for all her hard work in putting the council 'ahead of the game' in comparison to other district authorities in relation to GDPR.

RESOLVED that the content of the officer's report including progress with the Training Needs Plan, the GDPR Action Plan, the Communications Plan and action plans be noted.

### **30. Review of the Constitution- Financial Procedure Rules**

Rob Baxter, Interim Chief Finance Officer:

- a. presented to Audit Committee the revised Financial Procedure Rules and associated amendments required to the Constitution, for consideration and recommendation for adoption by Council
- b. reported that the financial procedure rules provided a framework for officers to work within to ensure compliance with the need to secure proper administration of the Council's financial affairs as required by section 151 of the Local Government Act 1972
- c. stated that changes to Financial Procedure Rules were required to ensure that officers had the flexibility to respond to the changing environment in which the Council now operated
- d. reported on key changes to the existing Financial Procedure Rules as detailed within paragraph 4 and Appendix A of the report
- e. referred to a number of changes required to Part 2 and Part 3 of the Constitution in relation to the conduct of financial affairs of the Council to ensure consistency, which would be reported to Council together with other changes to the Constitution on 23 January 2018

f. requested members' consideration on the content of the report.

Members queried the proposed change to delegations and limits to allow the relevant Assistant Director the discretion to amend fees and charges by as much as +/- 50% for any individual fee subject to consultation with the relevant Portfolio Holder.

Rob Baxter, Interim Chief Finance Officer advised that this proposed change was important to allow flexibility in areas such as car parking charges in order to compete on pricing structure with the private sector and act quickly to avoid losing income.

RESOLVED that Audit Committee recommended that the revised Financial Procedural Rules and amendments to the Constitution be approved by Council.

**31. Audit Committee Work Programme**

John Scott, Audit Manager presented a report to inform members of Audit Committee on the work programme for 2017/18 as detailed at Appendix A.

RESOLVED that that the contents of the Audit Committee work programme 2017/18 be noted subject to the inclusion of an additional item 'Draft Internal Audit Plan' at the next meeting of Audit Committee to be held on 13 February 2018.

<b>SUBJECT:</b>	<b>CERTIFICATION OF GRANT CLAIMS</b>
<b>DIRECTORATE:</b>	<b>CHIEF EXECUTIVE AND TOWN CLERK</b>
<b>REPORT AUTHOR:</b>	<b>JOHN SCOTT, AUDIT MANAGER</b>

**1. Purpose of Report**

1.1 To receive and comment upon the External Audit Grant and Returns report for 2016/17.

**2. Executive Summary**

2.1 External Audit are required to report annually the results of the grant certification work. The attached report is largely factual and similar in format to that submitted in previous years.

**3. Report Summary**

3.1 Adjustments were necessary to the Council's housing benefit claim, these reduced the overall amount of subsidy due to the Council by £1129. The claim, as in previous years, was subject to a qualification letter. The claim had a value of £33.4 million. There were some adjustments to the Housing Pooling return but an unqualified assurance report for this return was issued.

3.2 The proposed fee for certifying the Council's 2016/17 Housing Benefit Subsidy grant is £10,173 (£10,570 2015/16). This fee is still subject to approval by the PSAA.

The fee for the Housing Pooling Return work was agreed directly with the Council and was £3,000 (£3,000 2015/16).

**4. Organisational Impacts**

4.1 Finance (including whole life costs where applicable)

Financial implications are set out in Para 3.1 and 3.2 above.

4.2 Legal Implications including Procurement Rules

There are no direct legal implications.

**5. Recommendation**

5.1 That Audit Committee should note and comment on the attached audit reports.

<b>Is this a key decision?</b>	No
<b>Do the exempt information categories apply?</b>	No
<b>Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply?</b>	No
<b>How many appendices does the report contain?</b>	One
<b>List of Background Papers:</b>	None

<b>Lead Officer:</b>	John Scott, Audit Manager Telephone (01522) 873321
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# Annual Report on grants and returns 2016/17

**City of Lincoln Council**

January 2018



# Contents

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## Headlines

**Page**

3

## Summary of certification work outcomes

4

## Fees

7

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

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andrew Bush, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers ([andrew.sayers@kpmg.co.uk](mailto:andrew.sayers@kpmg.co.uk)). After this, in relation to the certification of the Housing Benefit Subsidy grant claim, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk), by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

### Introduction and background

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

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

- Under the Public Sector Audit Appointments arrangements we certified one claim, the Council's 2016/17 Housing Benefit Subsidy claim. This had a value of £33.4 million; and
- Under a separate engagement we issued an assurance report on the Council's 2016/17 Housing Pooling Return. The total capital receipts subject to pooling reported under the return was nearly £2.9m.

### Certification and assurance results (Pages 4-6)

#### Housing Benefit Subsidy

Our certification work on Housing Subsidy Benefit claim included:

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

As a result of issues identified in the previous year, and the matters arising from the initial testing, it was necessary for us to carry out:

- 100% testing in relation to three specific issues which resulted in claim adjustments; and
- 40+ testing in relation to seven further issues from which we calculated an estimate of the extrapolated total errors in the claim.

Following the completion of our work, the claim was as in previous years subject to a qualification letter, in addition to a number of audit adjustments. These resulted in the amount of subsidy claimed reducing by £1,129.

#### Housing Polling Return

The return was amended to include three capital receipts which had been omitted in error. Adjustments totalling £1,438,838 were necessary to differing cells on the return as a result of this issue with the amount of poolable receipts reported increasing by £134,000. We issued an unqualified assurance report on the amended return.

#### Fees (Page 5)

Our proposed fee for certifying the Council's 2016/17 Housing Benefit Subsidy grant is £10,173 (£10,570 2015/16). This fee is still subject to approval by the PSAA.

Our fee for the Housing Pooling Return work was agreed directly with the Council and was £3,000 (£3,000 2015/16).

# Summary of reporting outcomes

16





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

- one was unqualified but required some amendment to the final figures; and
- one required both minor amendment and a qualification to our audit certificate.

Detailed comments are provided overleaf.

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

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

	Comments overleaf	Qualified	Significant adjustment	Minor adjustment	Unqualified
<b>Public Sector Audit Appointments regime</b>					
— Housing Benefit Subsidy	1				
<b>Other grant/return engagements</b>					
— Housing Pooling Return	2				
		1	1	1	1



# Summary of certification work outcomes

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

Ref	Summary observations	Amendment
1	<p><b>Housing Benefit Subsidy</b></p> <p>Due to issues identified in the previous year and, as a result of our initial work it was necessary to perform 100% testing in relation to the following items/issues:</p> <ul style="list-style-type: none"> <li>— all non-HRA rent rebate cases with earnings. This resulted in a claim amendment of £1;</li> <li>— all non-HRA rent rebate cases with dependents. This resulted in no claim amendments; and</li> <li>— all non-HRA rent rebate short term leased accommodation cases where the local authority was the landlord to confirm the eligibility for claiming subsidy in this cell had been met. This resulted in a claim amendment of £6,485.</li> </ul> <p>A number of further minor amendments were made to the claim in respect of the routine reconciliation adjustments which had not been processed before the claim’s submission deadline amounting to £273, and errors in calculating the amount of uncashed cheques relating to prior years subsidy amounting to £856.</p> <p>The total impact on the claim from the above adjustments was a reduction to the amount of subsidy due by £1,129.</p> <p>In accordance the instructions agreed with DWP we issued a Qualification Letter reporting the matters we identified through our testing from which we could not determine the specific value of the claim misstatement. These issues included:</p> <ul style="list-style-type: none"> <li>— errors relating to the incorrect processing of weekly earnings for rent rebates and rent allowances resulting in under and over paid benefit, expenditure misclassification and errors with no subsidy impact;</li> <li>— errors relating to the incorrect processing of working tax credits for rent rebates resulting in over paid benefit;</li> <li>— errors relating to the misclassification of rent allowance overpayments within the claim form;</li> <li>— errors relating to the misclassification of rent allowance expenditure as a result of using the wrong claim related rent for Rent Officer cases; and</li> <li>— errors relating to the incorrect processing of eligible rents for rent allowances resulting in under and over paid benefit.</li> </ul> <p>For these items our Qualification Letter included an estimate, calculated following DWP’s prescribed methodology, of the extrapolated errors in the claim.</p>	- £1,129

# Summary of certification work outcomes

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

Ref	Summary observations	Amendment
2	<p><b>Housing Pooling Return</b></p> <p>Our work in relation to the certification of this return identified the following issues:</p> <ul style="list-style-type: none"> <li>— the omission of three capital receipts from the return;</li> <li>— a number of properties had been incorrectly allocated to the relevant categories within the quarterly attributable debt spreadsheets provided by DCLG, resulting in amendments to each quarters attributable debt figure on the return; and</li> <li>— the understatement of the Council’s expenditure under its Section 11(6) agreement on social housing projects.</li> </ul> <p>These errors had the effect of increasing the total amount of poolable receipts by £134,000.</p> <p>In respect of these we were able to agree cell amendments with the Council to enable us to issue an unqualified assurance report for this return.</p>	<p><b>+ £134,000</b></p>

## Fees

19

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

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

The overall fees we expect to charge for carrying out all our work on grants and returns in 2016/17 is £13,173.

### Public Sector Audit Appointments certification arrangements

Public Sector Audit Appointments set an indicative fee for our work on the Council's Housing Benefit Subsidy claim in 2016/17 of £9,098. Our proposed fee is £10,173 (£10,570 2015/16). The main reason for the fee exceeding the original estimate is an increase in the number of workbooks having to be completed due to issues identified. This fee is still subject to approval by the PSAA.

### Grants subject to other engagements

The fee for our work on the Housing Pooling Return was agreed directly with the Council.

### Breakdown of fees for grants and returns work

Breakdown of fee by grant/return		
	2016/17 (£)	2015/16 (£)
Housing Benefit Subsidy claim	10,173	10,570
Housing Polling Return	3,000	3,000
<b>Total fee</b>	<b>13,173</b>	<b>13,570</b>



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<b>SUBJECT:</b>	<b>REVIEW OF CODE OF CORPORATE GOVERNANCE</b>
<b>DIRECTORATE:</b>	<b>CHIEF EXECUTIVE AND TOWN CLERK</b>
<b>REPORT AUTHOR:</b>	<b>HEATHER GROVER, PRINICIPAL POLICY OFFICER</b>

**1. Purpose of Report**

1.1 To inform Audit Committee of the outcome of a review of the Code of Corporate Governance adopted in March 2017.

**2. Executive Summary**

2.1 City of Lincoln Council adopted a new Code of Corporate Governance in March 2017, with an agreed first review date of January 2018.

2.2 An internal audit was undertaken in autumn 2017 to look at compliance with the code, and as a result of the audit some minor changes to the code itself were identified. These have now been incorporated into the code as part of the review.

**3. Main Body of Report**

3.1 City of Lincoln Council must ensure that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, and used economically, efficiently and effectively. It also has a duty under the Local Government Act 1999 to secure continuous improvement in the way our functions are exercised, having regard to economy, efficiency and effectiveness.

3.2 In discharging this overall responsibility, the council must put in place proper governance arrangements for our affairs.

3.3 A new code consistent with the CIPFA/SOLACE Framework Delivering Good Governance in Local Government was approved by Executive in March 2017, with an agreed review date of January 2018.

3.4 An internal audit was undertaken in autumn 2017 to look at compliance with the code, and as a result of the audit some very minor changes to the code itself were also identified. The changes are as follows:

- Changed reference to single data “set” to the "Single Data List" and changed reference to Customer Access Strategy to Customer Experience Strategy
- Strategic Plan delivery monitoring changed from six monthly to quarterly

3.5 These changes have now been incorporated into the code as part of the review (see Appendix A). No further changes are recommended at this time and it is

proposed the next review should be in January 2020.

#### **4. Strategic Priorities**

4.1 Vision 2020 and the vision, priorities and core values contained within it form a part of the Code of Corporate Governance.

#### **5. Organisational Impacts**

##### **5.1 Finance (including whole life costs where applicable)**

The Code of Corporate Governance identifies procedures in place to ensure compliance with legislation and reduce risk.

##### **5.2 Legal Implications including Procurement Rules**

The Code of Corporate Governance identifies procedures in place to ensure compliance with legislation and reduce risk.

##### **5.3 Equality, Diversity & Human Rights**

The Code of Corporate Governance identifies procedures in place to ensure compliance with legislation and reduce risk.

#### **6. Recommendation**

6.1 That members not the minor amendments and agree the next review date of January 2020.

<b>Is this a key decision?</b>	No
<b>Do the exempt information categories apply?</b>	No
<b>Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply?</b>	No
<b>How many appendices does the report contain?</b>	Two
<b>List of Background Papers:</b>	None

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**Appendix A**

**City of Lincoln Council**

**Code of Corporate Governance**

February 2020

## Document control

<b>Organisation</b>	City of Lincoln Council
<b>Title</b>	Code of Corporate Governance 2017
<b>Author - name and title</b>	Heather Grover, Principal Policy Officer
<b>Owner - name and title</b>	Assistant Director Strategic Development
<b>Date</b>	February 2018
<b>Approvals</b>	
<b>Filename</b>	
<b>Version</b>	V.02
<b>Next review date</b>	February 2020

**Note: This code replaces the previous code and is a completely new document, based on different principles.**

## Document Amendment history

<b>Revision</b>	<b>Originator of change</b>	<b>Date of change</b>	<b>Change description</b>
Minor amends to comply with audit recommendations	Heather Grover	14/9/17	Single Data Set changed to read Single Data List, Customer Access Strategy changed to read Customer Experience Strategy and six monthly Strategic Plan delivery monitoring changed to Quarterly Strategic Plan/Vision 2020 delivery monitoring



## Introduction

City of Lincoln Council must ensure that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, and used economically, efficiently and effectively. We also have a duty under the Local Government Act 1999 to secure continuous improvement in the way our functions are exercised, having regard to economy, efficiency and effectiveness.

In discharging this overall responsibility, we must put in place proper governance arrangements for our affairs.

This document is our code of corporate governance. It is consistent with the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of our Code is on our website at [www.lincoln.gov.uk](http://www.lincoln.gov.uk)

## The purpose of this Code

Governance is about how we ensure that we are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

This Code of Corporate Governance sets out the documentation, systems and processes by which the authority transparently controls its activities. It enables us to monitor the achievement of our strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The code is based on a set of seven core principles:

- Core Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
- Core Principle B: Ensuring openness and comprehensive stakeholder engagement
- Core Principle C: Defining outcomes in terms of sustainable economic, social, and environmental benefits
- Core Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes
- Core Principle E: Developing the entity's capacity, including the capability of its leadership and the individuals within it
- Core Principle F: Managing risks and performance through robust internal control and strong public financial management
- Core Principle G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability

Each principle is considered individually in the following sections, aligning documentation, systems and processes to a number of sub-principles and behaviours and actions that demonstrate good governance in practice. Appendix 1 provides the principles of good governance as set out in the CIPFA/Solace publication, 'Delivering Good Governance in Local Government Framework.

**Core Principle A:  
Behaving with integrity, demonstrating strong commitment to  
ethical values, and respecting the rule of law**

Local government organisations are accountable not only for how much they spend, but also for how they use the resources under their stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes they have achieved. In addition, they have an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. It is essential that, as a whole, they can demonstrate the appropriateness of all their actions across all activities and have mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.

This section covers how we:

- Ensure members and officers **behave with integrity**, members lead on standard operating principles, and that these are used as a framework for decision making and embedded through policies and procedures.
- Demonstrate our **strong commitment to ethical values**, which includes ethical standards and performance, personal behaviour, policies and procedures and standards expected of external providers
- Ensure a **strong commitment to the rule of law**, where officers and members are able to fulfil their responsibilities, use of powers are optimised, and breaches of the law and corruption are dealt with effectively.

<b>Core Principle A – Key Documents</b>	Behaving with integrity	Demonstrating strong commitment to ethical values	Respecting the rule of law
Constitution - relevant sections	x	x	x
HR Policy Handbook- terms and conditions	x	x	x
Vision 2020 (Strategic Plan) – setting out vision, priorities and core values	x	x	x
Website e.g. page on Councillor complaints, code of conduct and register of interests	x	x	x
Intranet	x	x	x
Equality and Diversity Policy		x	x
Equality Objectives and associated action plan		x	x
Annual Equality Journal		x	x
Health and Safety Policy			x
People Strategy	x	x	
Joint working Policy and Guidance	x	x	
Counter Fraud Strategy		x	x
Tenancy Fraud Strategy		x	x
Anti-Fraud policy		x	x
Disposal and retention policy			x
Safeguarding and Domestic Abuse Policies			x
Data Protection Policy			x
IT Security Policy			x

Core Principle A – Key Processes	Behaving with integrity	Demonstrating strong commitment to ethical values	Respecting the rule of law
Ethics and Engagement Committee (ensuring member training and advice on code of conduct)	x	x	
Staff induction process	x	x	x
Staff appraisal system	x		
Member training programme and records	x	x	
Equality Analyses	x	x	
Regular Portfolio Holder/Senior Officer meetings	x		
Corporate Management Team (CX and Directors) (CMT)		x	
Corporate Leadership Team (CMT and Assistant Directors) (CLT)		x	
Directorate Management Teams		x	
Team meetings		x	
'In brief' on Intranet		x	
NET Consent – ensuring key documents are read		x	
Recruitment and selection procedures and processes		x	
Procurement through Procurement Lincolnshire		x	
Appointment of statutory officers – Chief Executive (Head of Paid Service), Section 151 Officer (Chief Finance Officer) and Monitoring Officer (City Solicitor)			x
Subscribing to national email alert systems			x
Monthly summary of emerging policy and guidance considered by CLT			x
Financial management arrangements conform to CIPFA Statement on Role of Chief Financial Officer in Local Government (2010)			x
Audit Committee		x	x
Scrutiny Committees			x
Strategic boards and supporting programme teams			x
Strategic Plan Implementation Team			x

## Core Principle B:

### Ensuring openness and comprehensive stakeholder engagement

Local government is run for the public good, organisations therefore should ensure openness in their activities. Clear, trusted channels of communication and consultation should be used to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders.

This section covers how we:

- Ensure **an open culture**, making decisions that are open, providing clear reasoning and evidence for decisions and using consultation to inform actions
- **Comprehensively engage with institutional stakeholders** to ensure strong partnerships based on trust and shared commitment where objectives are achieved and outcomes sustainable, through effective use of resources
- **Engage with individual citizens and service users** effectively, ensuring meaningful consultation with and involvement of communities, citizens and service users, and effective communication methods, collection and evaluation of views and provision of feedback.

Core Principle B – Key Documents	Openness	Engaging comprehensively with institutional stakeholders	Engaging with individual citizens and service users effectively
Constitution	x	x	x
HR Policy Handbook- terms and conditions	x	x	x
Vision 2020 (Strategic Plan) – setting out vision, priorities and core values	x	x	x
Annual Report	x	x	x
Executive Forward Work Programme	x		
Website e.g. page on Councillor complaints, code of conduct and register of interests, data transparency	x	x	x
Intranet	x	x	
Consultation and Engagement Strategy	x	x	x
Equality and Diversity Policy	x		
Equality Objectives and associated action plan	x		
Annual Equality Journal	x		
Community Cohesion Strategy			x
Lincoln Against Poverty Strategy and Action Plan			x
Housing Revenue Account Business Plan			x
Local Performance Management Framework	x		
People Strategy		x	
Joint working Policy and Guidance		x	
Customer Experience Strategy			x
'Your Lincoln' residents magazine			x
'Home' tenants magazine			x

Core Principle B – Key Processes	Openness	Engaging comprehensively with institutional stakeholders	Engaging with individual citizens and service users effectively
Publication scheme	x		
Staff appraisal system		x	
Strategic plan development and consultation	x		
Data transparency quarterly monitoring	x		
'Channel shift' programme	x		
Procedures for Part 'B' (confidential) reports	x		
Equality Analyses	x		
Committee Report Template	x		
CX meetings with Leadership and opposition Leader	x		x
Regular Portfolio Holder/Senior Officer meetings	x		
Pre-meets with Committee Chairs	x		
Public Consultation		x	x
Corporate Leadership Team (CMT and Assistant Directors) (CLT)	x		
Directorate Management Teams	x		
Team meetings	x		
Quarterly performance and finance reporting	x		
Quarterly Strategic Plan/Vision 2020 delivery monitoring	x		
'In brief' on Intranet	x		
Member training programme and records		x	
Recruitment and selection procedures and processes		x	
Strategic boards and supporting programme teams	x		
Strategic Plan Implementation Team	x		
Internal reviews	x	x	x
Joint working groups and working in partnership		x	x
Growth Conference		x	

## Core Principle C: Defining outcomes in terms of sustainable economic, social, and environmental benefits

The long-term nature and impact of many of local government's responsibilities mean that it should define and plan outcomes and that these should be sustainable. Decisions should further the organisation's purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available.

This section covers how we:

- **Define outcomes** with an agreed vision of the organisation's overall strategy, specify intended impact on stakeholders, citizens and service users, deliver outcomes and manage user expectations
- Consider **sustainable economic, social and environmental impacts** of policies and plans, take a longer-term view with regard to decisions making, and ensure fair access to services. This includes how we balance potential conflicts of interest between achieving these benefits and the wider public interest.

Core Principle C – Key Documents	Defining outcomes	Sustainable economic, social and environmental benefits
Constitution (includes contract procedure rules)	x	x
HR Policy Handbook- terms and conditions	x	x
Vision 2020 (Strategic Plan) – setting out vision, priorities and core values	x	x
Annual Report	x	
Website e.g. page on Councillor complaints, code of conduct and register of interests	x	x
Intranet	x	x
Lincoln City Profile	x	
Consultation and Engagement Strategy	x	
'Your Lincoln' residents magazine	x	
'Home' tenants magazine	x	
Local Performance Management Framework	x	
Risk Management Strategy	x	
Strategic Risk Register	x	
Corporate Risk Management Toolkit	x	
Treasury Management Strategy (including Capital Investment Strategy)		x
Asset Management Plan		x
Central Lincolnshire Local Plan		x
City Centre Master Plan		x
Executive Forward Work Programme		x
Customer Experience Strategy		x
Equality and Diversity Policy	x	x
Equality Objectives and associated action plan		
Annual Equality Journal	x	

Core Principle C – Key Processes	Defining outcomes	Sustainable economic, social and environmental benefits
Equality and Diversity Group	x	
Record of member training	x	x
Equality Analyses	x	x
Neighbourhood Working	x	
Service Planning	x	
Quarterly performance and financial reporting	x	
Six monthly Strategy Plan delivery reporting	x	
Monthly financial monitoring with budget holders	x	
Performance clinics to address poor performance	x	
Regular Portfolio Holder/Senior Officer meetings		x
Corporate Management Team (CX and Directors) (CMT)	x	
Corporate Leadership Team (CMT and Assistant Directors) (CLT)	x	
Directorate Management Teams	x	
Team meetings	x	
Member training programme and records	x	x
Procurement through Procurement Lincolnshire		x
Committee report template		x
Compliance with National Single Data List	x	
Financial management arrangements conform to CIPFA Statement on Role of Chief Financial Officer in Local Government (2010)		x
Audit Committee		x
Scrutiny Committees		x
Strategic boards and supporting programme teams	x	
Strategic Plan Implementation Team	x	

## Core Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes

Local government achieves its intended outcomes by providing a mixture of legal, regulatory, and practical interventions (courses of action). Determining the right mix of these courses of action is a critically important strategic choice that local government has to make to ensure intended outcomes are achieved. They need robust decision-making mechanisms to ensure that their defined outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations. Decisions made need to be reviewed frequently to ensure that achievement of outcomes is optimised.

This section covers how we:

- **Determine interventions** by ensuring decision makers receive robust analysis of options showing how intended outcomes would be achieved and consider feedback from citizens and service users when making changes to services
- **Plan interventions** to ensure robust planning and control cycles, engagement with stakeholders in planning and delivering services, management of risk, flexibility, performance management, review of service quality, and realistic budgets in line with objectives to develop a sustainable funding strategy
- Ensure the medium term financial strategy integrates and balances service priorities, taking into account full costs, best use of resources and achieving 'social' value, set in the context of ongoing decisions on service delivery issues and the external environment to **optimise achievement of intended outcomes.**

Core Principle D – Key Documents	Determining interventions	Planning interventions	Optimising achievement of intended outcomes
Constitution (including financial procedure rules)	x	x	x
Vision 2020 (Strategic Plan) – setting out vision, priorities and core values	x	x	
Annual Report		x	
Website e.g. page on Councillor complaints, code of conduct and register of interests	x	x	
Medium Term Financial Strategy	x		x
Housing Revenue Account 30 Year Business Plan			x
Consultation and Engagement Strategy	x	x	
Equality and Diversity Policy	x		
Equality Objectives and associated action plan	x		
'Your Lincoln' residents magazine		x	
'Home' tenants magazine		x	
Joint working Policy and Guidance		x	
Risk Management Strategy		x	
Corporate Risk Management Toolkit		x	
Budget Holder Manual			x



Core Principle D – Key Processes	Determining interventions	Planning interventions	Optimising achievement of intended outcomes
Equality Analyses	x	x	
Regular Portfolio Holder/Senior Officer meetings	x		
Committee Report Template	x	x	
Public consultation including review and annual budget consultation	x	x	
Service planning (includes consideration of social value)	x	x	x
Corporate Management Team (CX and Directors) (CMT)	x	x	
Corporate Leadership Team (CMT and Assistant Directors) (CLT)	x	x	
Directorate Management Teams		x	
Team meetings		x	
Neighbourhood working		x	
Member training programme and records	x		
Quarterly performance and financial reporting		x	
Quarterly Strategic Plan/Vision 2020 delivery monitoring		x	
Performance clinics to address poor performance		x	
Annual budget cycle			x
Procurement through Procurement Lincolnshire			x
Monthly financial monitoring with budget holders			x
Strategic Plan development and consultation	x		
Information Management and Performance System (IMPS)		x	
Strategic boards and supporting programme teams		x	x
Strategic Plan Implementation Team		x	

## Core Principle E: Developing the entity's capacity, including the capability of its leadership and the individuals within it

Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mind-set, to operate efficiently and effectively and achieve intended outcomes within the specified periods. A local government organisation must ensure that it has both the capacity to fulfil its own mandate and to make certain that there are policies in place to guarantee that its management has the operational capacity for the organisation as a whole. Because both individuals and the environment in which an organisation operates will change over time, there will be a continuous need to develop its capacity as well as the skills and experience of individual staff members. Leadership in local government is strengthened by the participation of people with many different types of backgrounds, reflecting the structure and diversity of communities.

This section covers how we:

- Review operations and performance, including through benchmarking, to ensure ongoing effectiveness and to **develop the entity's capacity**. This includes how we ensure improving use of resources, work collaboratively and in partnership to add value and maintain effective workforce planning.
- Ensure **the capability of the entity's leadership and individuals are developed** with elected and appointed leaders having a shared understanding of objectives and clearly defined roles, publication of decision making delegation, ongoing development of members and senior management in a changing environment, encouragement of public participation, and regular staff reviews of performance, training needs and health and wellbeing.

Core Principle E – Key Documents	Developing the entity's capacity	Developing the capability of the entity's leadership and other individuals
Constitution	x	x
HR Policy Handbook- terms and conditions	x	x
Vision 2020 (Strategic Plan) – setting out vision, priorities and core values	x	x
Website e.g. page on Councillor complaints, code of conduct and register of interests	x	x
Lincoln City Profile	x	
Intranet	x	
Revenues and Benefits Shared Service Delegation Agreement	x	
Central Lincolnshire Local Plan	x	
Job descriptions		x
People Strategy	x	x
Joint working Policy and Guidance	x	

Core Principle E - Key Processes	Developing the entity's capacity	Developing the capability of the entity's leadership and other individuals
Regular review of Constitution (including scheme of delegation)		x
Current review of contract procedure rules		x
Quarterly performance and financial reporting	x	
Quarterly Strategic Plan/Vision 2020 delivery monitoring	x	
Benchmarking (including CIPFA, LG Inform and within specific services)	x	
Central Lincolnshire Joint Strategic Planning Committee	x	
Public consultation (including through Lincoln Tenants' Panel and Citizens Panel)		x
Staff induction process		x
Online staff training programmes		x
Staff appraisal system		x
Programme of management development		x
LGA Peer Challenge February 2017		x
Regular Leader/CX meetings		x
Regular Portfolio Holder/Senior Officer meetings		x
Team meetings		x
'In brief' on Intranet		x
NET Consent – ensuring key documents are read		x
Member training programme and records		x
Recruitment and selection procedures and processes		x
Procurement through Procurement Lincolnshire	x	
Ethics and Engagement Committee		x
Appointment of statutory officers – Chief Executive (Head of Paid Service), Section 151 Officer (Chief Finance Officer) and Monitoring Officer (City Solicitor)		x
Joint Consultative Committee (with unions)		x
Human Resources health and well-being champion		x
Strategic boards and supporting programme teams	x	

## **Core Principle F: Managing risks and performance through robust internal control and strong public financial management**

Local government needs to ensure that the organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services.

Risk management and internal control are important and integral parts of a performance management system and are crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision making activities.

A strong system of financial management is essential for the implementation of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery and accountability.

It is also essential that a culture and structure for scrutiny are in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and successful service delivery. Importantly, this culture does not happen automatically, it requires repeated public commitment from those in authority.

This section covers how we:

- **Manage risk** as an integral part of all activities, including as part of decision making with robust risk management arrangements in place and allocation of responsibilities.
- **Manage performance** from planning through to post implementation review, making informed decisions, ensuring effective scrutiny, providing regular performance reports and ensuring consistency between budget and financial statements.
- Ensure **robust internal control** through a risk management strategy which is aligned to achieving objectives, effective counter fraud and anti-corruption arrangements, and an effective internal audit backed up by assurance from an audit committee independent of Executive.
- **Manage data** ensuring effective arrangements for all aspects of data handling, including data sharing, and reviewing quality of data used.
- Ensure **strong public financial management** supporting both long term achievement of outcomes and short term performance, integrated at all levels of control.

<b>Core Principle F - Key Documents</b>	<b>Managing Risk</b>	<b>Managing performance</b>	<b>Robust internal control</b>	<b>Managing data</b>	<b>Strong public financial management</b>
Constitution	x	x	x	x	x
HR Policy Handbook- terms and conditions			x		
Vision 2020 (Strategic Plan) – setting out vision, priorities and core values		x			
Website e.g. page on Councillor complaints, code of conduct and register of interests		x			x
Annual report (including performance and financial information)		x			x
Medium Term Financial Strategy		x			x
Treasury Management Strategy		x			x
Annual Statement of Accounts		x			x
Risk Management Strategy	x		x		
Corporate Risk Management Toolkit	x		x		
Strategic Risk Register and departmental risk registers	x		x		
Local Performance Management Framework		x			
Annual Audit Plan			x	x	
External Audit Value for Money conclusion		x			
Counter Fraud Strategy			x		
Tenancy Fraud Strategy			x		
Anti-Fraud policy			x		
Annual Governance Statement			x		
Disposal and retention policy				x	
Value for Money Statement					x
Data Protection Policy				x	
Data Sharing Protocols				x	
Data processing agreements				x	
Data Quality Policy				x	
IT Security Policy				x	

<b>Core Principle F – Key Processes</b>	<b>Managing Risk</b>	<b>Managing performance</b>	<b>Robust internal control</b>	<b>Managing data</b>	<b>Strong public financial management</b>
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<b>Core Principle F – Key Processes</b>	<b>Managing Risk</b>	<b>Managing performance</b>	<b>Robust internal control</b>	<b>Managing data</b>	<b>Strong public financial management</b>
Annual Budget cycle					x
Benchmarking (including CIPFA, LG Inform and within specific services)		x			
Monthly financial monitoring with budget holders					x
Committee report template	x	x			
Equality Analyses		x			
Regular Portfolio Holder/Senior Officer meetings		x			
Corporate Management Team (CX and Directors) (CMT)		x			
Corporate Leadership Team (CMT and Assistant Directors) (CLT)	x	x			
Directorate Management Teams	x	x			
Team meetings		x			
Risk management training	x				
Regular review of Constitution including financial and contract procedure rules		x			x
Senior lead officer identified to support scrutiny chairs		x			
Member training programme and records	x	x	x		
Procurement through Procurement Lincolnshire					x
Appointment of statutory officers – Chief Executive (Head of Paid Service), Section 151 Officer (Chief Finance Officer) and Monitoring Officer (City Solicitor)			x		x
Internal Audit complies with Public Sector Internal Audit Standards			x		
Financial management arrangements conform to CIPFA Statement on Role of Chief Financial Officer in Local Government (2010)					x
Executive Committee	x				
Audit Committee (including monitoring audit recommendations)	x		x	x	
Information Management Projects				x	
Scrutiny Committees	x	x			
Information Management and Performance System (IMPS)		x			
Quarterly performance and financial reporting		x		x	
Quarterly Strategic Plan/Vision 2020 delivery monitoring		x			
External peer assessment			x		
Compliance with National Single Data List		x			
Lincoln Project Management Model, toolkit and training		x			
Strategic boards and supporting programme teams		x			

**Core Principle G:  
Implementing good practices in transparency,  
reporting, and audit to deliver**

Accountability is about ensuring that those making decisions and delivering services are answerable for them. Effective accountability is concerned not only with reporting on actions completed, but also ensuring that stakeholders are able to understand and respond as the organisation plans and carries out its activities in a transparent manner. Both external and internal audit contribute to effective accountability.

This section covers how we:

- Ensure **good practice in transparency** by providing easy access to information for external audiences in appropriate format, enabling public scrutiny without being too onerous.
- Report timely and consistent information on performance, value for money and resources accompanying financial statements, ensure ownership of results by members and management and assess application of principles in the governance framework, including for shared and jointly managed services, in line with **good practice in reporting**.
- Ensure **assurance and effective accountability** by action on recommendations by external audit, an effective internal audit service, peer challenge, and of third party risks with when working in partnership.

<b>Core Principle G – Key Documents</b>	Implementing good practice in transparency	Implementing good practices in reporting	Assurance and effective accountability
Constitution	x	x	x
HR Policy Handbook- terms and conditions		x	
Vision 2020 (Strategic Plan) – setting out vision, priorities and core values	x		
Annual Report	x	x	
Website (including data transparency page)	x		
Freedom of Information Policy	x		
Annual Statement of Accounts		x	
Annual Governance Statement		x	
People Strategy		x	
Joint working Policy and Guidance		x	x
Partnership and Service Level Agreements			x

<b>Core Principle G – Key Processes</b>	Implementing good practice in transparency	Implementing good practices in reporting	Assurance and effective accountability

Core Principle G – Key Processes	Implementing good practice in transparency	Implementing good practices in reporting	Assurance and effective accountability
Quarterly monitoring of compliance with data transparency aligned with performance monitoring through Information Management Performance System (IMPS)	x		
Staff appraisal system		x	
Quarterly performance and financial reporting		x	
Six monthly Strategy Plan delivery reporting		x	
Regular Portfolio Holder/Senior Officer meetings		x	
Corporate Management Team (CX and Directors) (CMT)		x	
Corporate Leadership Team (CMT and Assistant Directors) (CLT)		x	
Directorate Management Teams		x	
Team meetings		x	
LGA Peer Review in February 2017			x
Service area external peer assessment			x
Appointment of statutory officers – Chief Executive (Head of Paid Service), Section 151 Officer (Chief Finance Officer) and Monitoring Officer (City Solicitor)		x	
Financial management arrangements conform to CIPFA Statement on Role of Chief Financial Officer in Local Government (2010)		x	
Audit Committee		x	x
Executive		x	
Scrutiny Committees		x	



## Review of the effectiveness of this Code

The City Council conducts annually a review of the effectiveness of its governance framework including the system of internal control. The City Council's performance in meeting the principles within this code are reported in an annual statement called the Annual Governance Statement.

The review of effectiveness is a comprehensive piece of work and is informed by a range of sources of information including:

- Internal and External Audit Reports
- Council's performance in managing risk
- The councils overall performance management
- Assurances from third parties such as inspections
- The views of the Head of Internal Audit
- Complaints received
- Ethics and standards issues

**Appendix 2 and 3** below illustrate the full range of information sources that are utilised in that review. This latter appendix also incorporates the quality assurance process the Annual Governance Statement passes through prior to adoption. Stages include:

- Production of a draft statement by an independent senior officer utilising the full range of information sources
- Review by Assistant Directors to ensure the statement reflects the key issues and is comprehensive
- Review and approval by the Council's Corporate Management Team (corporate directors)
- Review and challenge by the Council's Audit Committee
- Comment by the Council's Executive Committee
- Approval by Full Council as part of the Statement of Accounts

Further information on the operation of this code is available from:

Martin Walmsley  
Interim Assistant Director – Strategic Development  
Chief Executive's Dept.  
City Hall, Beaumont Fee  
Lincoln, LN1 1DD

Tel: 01522 873597

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**Core Principle A:  
Behaving with integrity, demonstrating strong commitment to  
ethical values, and respecting the rule of law**

Local government organisations are accountable not only for how much they spend, but also for how they use the resources under their stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes they have achieved. In addition, they have an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. It is essential that, as a whole, they can demonstrate the appropriateness of all their actions across all activities and have mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.

**Behaving with integrity**

- Ensuring members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the organisation
- Ensuring members take the lead in establishing specific standard operating principles or values for the organisation and its staff and that they are communicated and understood. These should build on the Seven Principles of Public Life (the Nolan Principles)
- Leading by example and using the above standard operating principles or values as a framework for decision making and other actions
- Demonstrating, communicating and embedding the standard operating principles or values through appropriate policies and processes which are reviewed on a regular basis to ensure that they are operating effectively

**Demonstrating strong commitment to ethical values**

- Seeking to establish, monitor and maintain the organisation's ethical standards and performance
- Underpinning personal behaviour with ethical values and ensuring they permeate all aspects of the organisation's culture and operation
- Developing and maintaining robust policies and procedures which place emphasis on agreed ethical values
- Ensuring that external providers of services on behalf of the organisation are required to act with integrity and in compliance with ethical standards expected by the organisation

**Respecting the rule of law**

- Ensuring members and staff demonstrate a strong commitment to the rule of the law as well as adhering to relevant laws and regulations
- Creating the conditions to ensure that the statutory officers, other key post holders, and members, are able to fulfil their responsibilities in accordance with legislative and regulatory requirements
- Striving to optimise the use of the full powers available for the benefit of citizens, communities and other stakeholders
- Dealing with breaches of legal and regulatory provisions effectively
- Ensuring corruption and misuse of power are dealt with effectively

## Core Principle B:

### Ensuring openness and comprehensive stakeholder engagement

Local government is run for the public good, organisations therefore should ensure openness in their activities. Clear, trusted channels of communication and consultation should be used to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders.

#### Openness

- Ensuring an open culture through demonstrating, documenting and communicating the organisation's commitment to openness
- Making decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes. The presumption is for openness. If that is not the case, a justification for the reasoning for keeping a decision confidential should be provided
- Providing clear reasoning and evidence for decisions in both public records and explanations to stakeholders and being explicit about the criteria, rationale and considerations used. In due course, ensuring that the impact and consequences of those decisions are clear
- Using formal and informal consultation and engagement to determine the most appropriate and effective interventions/ courses of action

#### Engaging comprehensively with institutional stakeholders

NB: Institutional stakeholders are the other organisations that local government needs to work with to improve services and outcomes (such as commercial partners and suppliers as well as other public or third sector organisations) or organisations to which they are accountable.

- Effectively engaging with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that outcomes are achieved successfully and sustainably
- Developing formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively
- Ensuring that partnerships are based on trust, a shared commitment to change, a culture that promotes and accepts challenge among partners and that the added value of partnership working is explicit

#### Engaging with individual citizens and service users effectively

- Establishing a clear policy on the type of issues that the organisation will meaningfully consult with or involve communities, individual citizens, service users and other stakeholders to ensure that service (or other) provision is contributing towards the achievement of intended outcomes
- Ensuring that communication methods are effective and that members and officers are clear about their roles with regard to community engagement
- Encouraging, collecting and evaluating the views and experiences of communities, citizens, service users and organisations of different backgrounds including reference to future needs
- Implementing effective feedback mechanisms in order to demonstrate how views have been taken into account
- Balancing feedback from more active stakeholder groups with other stakeholder groups to ensure inclusivity
- Taking account of the impact of decisions on future generations of tax payers and service users

**Core Principle C:  
Defining outcomes in terms of sustainable economic,  
social, and environmental benefits**

The long-term nature and impact of many of local government's responsibilities mean that it should define and plan outcomes and that these should be sustainable. Decisions should further the organisation's purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available.

**Defining outcomes**

- Having a clear vision, which is an agreed formal statement of the organisation's purpose and intended outcomes containing appropriate performance indicators, which provide the basis for the organisation's overall strategy, planning and other decisions
- Specifying the intended impact on, or changes for, stakeholders including citizens and service users. It could be immediately or over the course of a year or longer
- Delivering defined outcomes on a sustainable basis within the resources that will be available
- Identifying and managing risks to the achievement of outcomes
- Managing service users' expectations effectively with regard to determining priorities and making the best use of the resources available

**Sustainable economic, social and environmental benefits**

- Considering and balancing the combined economic, social and environmental impact of policies and plans when taking decisions about service provision
- Taking a longer-term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the organisation's intended outcomes and short-term factors such as the political cycle or financial constraints
- Determining the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs
- Ensuring fair access to services

## **Core Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes**

Local government achieves its intended outcomes by providing a mixture of legal, regulatory, and practical interventions (courses of action). Determining the right mix of these courses of action is a critically important strategic choice that local government has to make to ensure intended outcomes are achieved. They need robust decision-making mechanisms to ensure that their defined outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations. Decisions made need to be reviewed frequently to ensure that achievement of outcomes is optimised.

### **Determining interventions**

- Ensuring decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and associated risks. Therefore ensuring best value is achieved however services are provided
- Considering feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands within limited resources available including people, skills, land and assets and bearing in mind future impacts

### **Planning interventions**

- Establishing and implementing robust planning and control cycles that cover strategic and operational plans, priorities and targets
- Engaging with internal and external stakeholders in determining how services and other courses of action should be planned and delivered
- Considering and monitoring risks facing each partner when working collaboratively, including shared risks
- Ensuring arrangements are flexible and agile so that the mechanisms for delivering goods and services can be adapted to changing circumstances
- Establishing appropriate key performance indicators (KPIs) as part of the planning process in order to identify how the performance of services and projects is to be measured
- Ensuring capacity exists to generate the information required to review service quality regularly
- Preparing budgets in accordance with objectives, strategies and the medium term financial plan
- Informing medium and long term resource planning by drawing up realistic estimates of revenue and capital expenditure aimed at developing a sustainable funding strategy

### **Optimising achievement of intended outcomes**

- Ensuring the medium term financial strategy integrates and balances service priorities, affordability and other resource constraints
- Ensuring the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term
- Ensuring the medium term financial strategy sets the context for ongoing decisions on significant delivery issues or responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while optimising resource usage
- Ensuring the achievement of 'social value' through service planning and commissioning

## **Core Principle E: Developing the entity's capacity, including the capability of its leadership and the individuals within it**

Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mind-set, to operate efficiently and effectively and achieve intended outcomes within the specified periods. A local government organisation must ensure that it has both the capacity to fulfil its own mandate and to make certain that there are policies in place to guarantee that its management has the operational capacity for the organisation as a whole. Because both individuals and the environment in which an organisation operates will change over time, there will be a continuous need to develop its capacity as well as the skills and experience of individual staff members. Leadership in local government is strengthened by the participation of people with many different types of backgrounds, reflecting the structure and diversity of communities.

### **Developing the entity's capacity**

- Reviewing operations, performance and use of assets on a regular basis to ensure their continuing effectiveness
- Improving resource use through appropriate application of techniques such as benchmarking and other options in order to determine how resources are allocated so that defined outcomes are achieved effectively and efficiently
- Recognising the benefits of partnerships and collaborative working where added value can be achieved
- Developing and maintaining an effective workforce plan to enhance the strategic allocation of resources

### **Developing the capability of the entity's leadership and other individuals**

- Developing protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained
- Publishing a statement that specifies the types of decisions that are delegated and those reserved for the collective decision making of the governing body
- Ensuring the leader and the chief executive have clearly defined and distinctive leadership roles within a structure whereby the chief executive leads in implementing strategy and managing the delivery of services and other outputs set by members and each provides a check and a balance for each other's authority
- Developing the capabilities of members and senior management to achieve effective leadership and to enable the organisation to respond successfully to changing legal and policy demands as well as economic, political and environmental changes and risks by: – ensuring members and staff have access to appropriate induction tailored to their role and that ongoing training and development matching individual and organisational requirements is available and encouraged – ensuring members and officers have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis – ensuring personal, organisational and system-wide development through shared learning, including lessons learnt from governance weaknesses both internal and external
- Ensuring that there are structures in place to encourage public participation
- Taking steps to consider the leadership's own effectiveness and ensuring leaders are open to constructive feedback from peer review and inspections
- Holding staff to account through regular performance reviews which take account of training or development needs
- Ensuring arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing

## **Core Principle F: Managing risks and performance through robust internal control and strong public financial management**

Local government needs to ensure that the organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services.

Risk management and internal control are important and integral parts of a performance management system and are crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision making activities.

A strong system of financial management is essential for the implementation of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery and accountability.

It is also essential that a culture and structure for scrutiny are in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and successful service delivery. Importantly, this culture does not happen automatically, it requires repeated public commitment from those in authority.

### **Managing risk**

- Recognising that risk management is an integral part of all activities and must be considered in all aspects of decision making
- Implementing robust and integrated risk management arrangements and ensuring that they are working effectively
- Ensuring that responsibilities for managing individual risks are clearly allocated

### **Managing performance**

- Monitoring service delivery effectively including planning, specification, execution and independent post implementation review
- Making decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in the organisation's financial, social and environmental position and outlook
- Ensuring an effective scrutiny or oversight function is in place which provides constructive challenge and debate on policies and objectives before, during and after decisions are made thereby enhancing the organisation's performance and that of any organisation for which it is responsible
- Providing members and senior management with regular reports on service delivery plans and on progress towards outcome achievement
- Ensuring there is consistency between specification stages (such as budgets) and post implementation reporting (eg financial statements)

### **Robust internal control**

- Aligning the risk management strategy and policies on internal control with achieving objectives
- Evaluating and monitoring risk management and internal control on a regular basis
- Ensuring effective counter fraud and anti-corruption arrangements are in place
- Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor
- Ensuring an audit committee or equivalent group/function, which is independent of the executive and accountable to the governing body: – provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment – that its recommendations are listened to and acted upon

**Managing data**

- Ensuring effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data
- Ensuring effective arrangements are in place and operating effectively when sharing data with other bodies
- Reviewing and auditing regularly the quality and accuracy of data used in decision making and performance monitoring

**Strong public financial management**

- Ensuring financial management supports both long term achievement of outcomes and short-term financial and operational performance
- Ensuring well-developed financial management is integrated at all levels of planning and control, including management of financial risks and controls



## **Core Principle G: Implementing good practices in transparency, reporting, and audit to deliver**

Accountability is about ensuring that those making decisions and delivering services are answerable for them. Effective accountability is concerned not only with reporting on actions completed, but also ensuring that stakeholders are able to understand and respond as the organisation plans and carries out its activities in a transparent manner. Both external and internal audit contribute to effective accountability.

### **Implementing good practice in transparency**

- Writing and communicating reports for the public and other stakeholders in a fair, balanced and understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate
- Striking a balance between providing the right amount of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand

### **Implementing good practices in reporting**

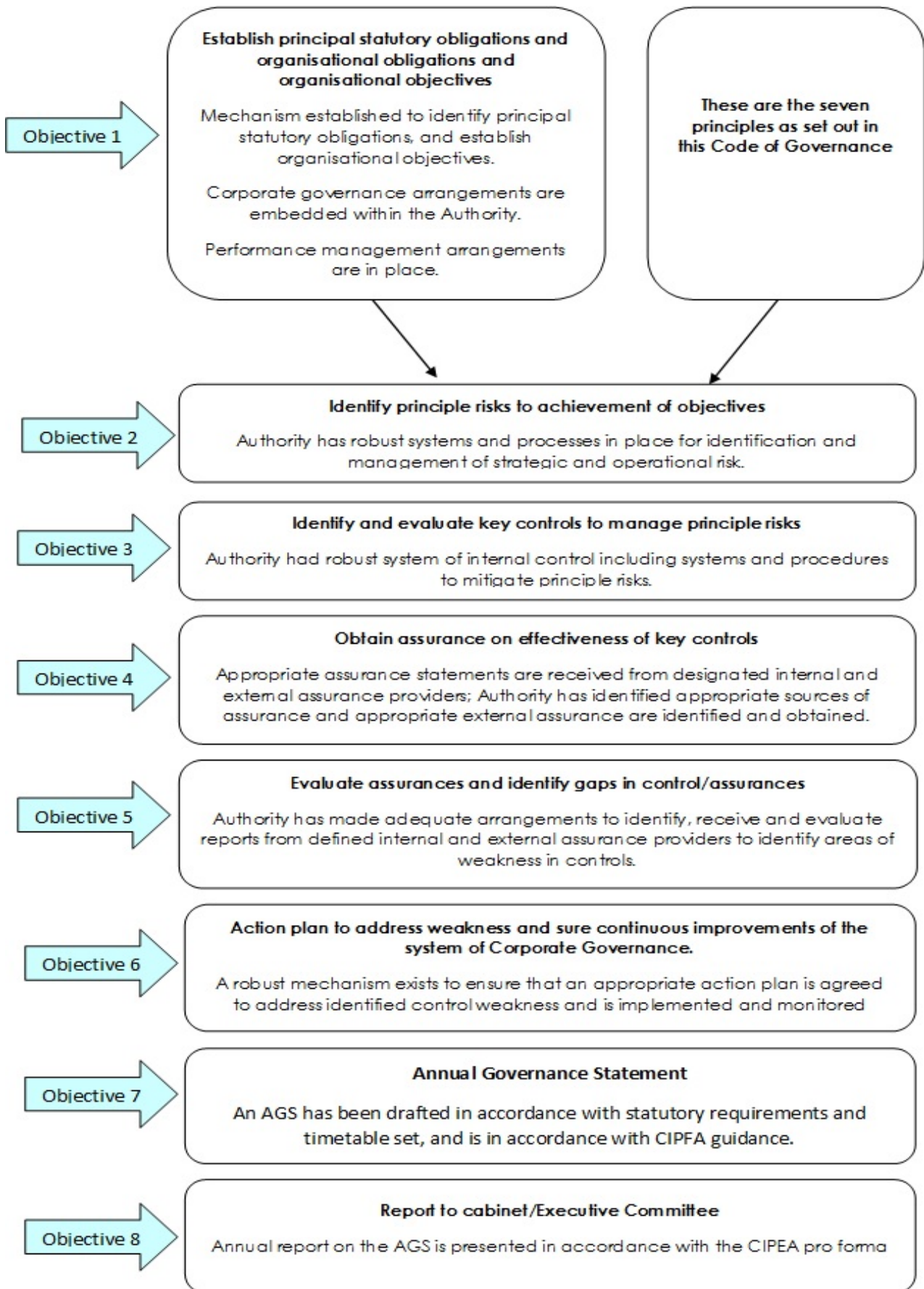
- Reporting at least annually on performance, value for money and stewardship of resources to stakeholders in a timely and understandable way
- Ensuring members and senior management own the results reported
- Ensuring robust arrangements for assessing the extent to which the principles contained in this Framework have been applied and publishing the results on this assessment, including an action plan for improvement and evidence to demonstrate good governance (the annual governance statement)
- Ensuring that this Framework is applied to jointly managed or shared service organisations as appropriate
- Ensuring the performance information that accompanies the financial statements is prepared on a consistent and timely basis and the statements allow for comparison with other, similar organisations

### **Assurance and effective accountability**

- Ensuring that recommendations for corrective action made by external audit are acted upon
- Ensuring an effective internal audit service with direct access to members is in place, providing assurance with regard to governance arrangements and that recommendations are acted upon
- Welcoming peer challenge, reviews and inspections from regulatory bodies and implementing recommendations
- Gaining assurance on risks associated with delivering services through third parties and that this is evidenced in the annual governance statement
- Ensuring that when working in partnership, arrangements for accountability are clear and the need for wider public accountability has been recognised and met

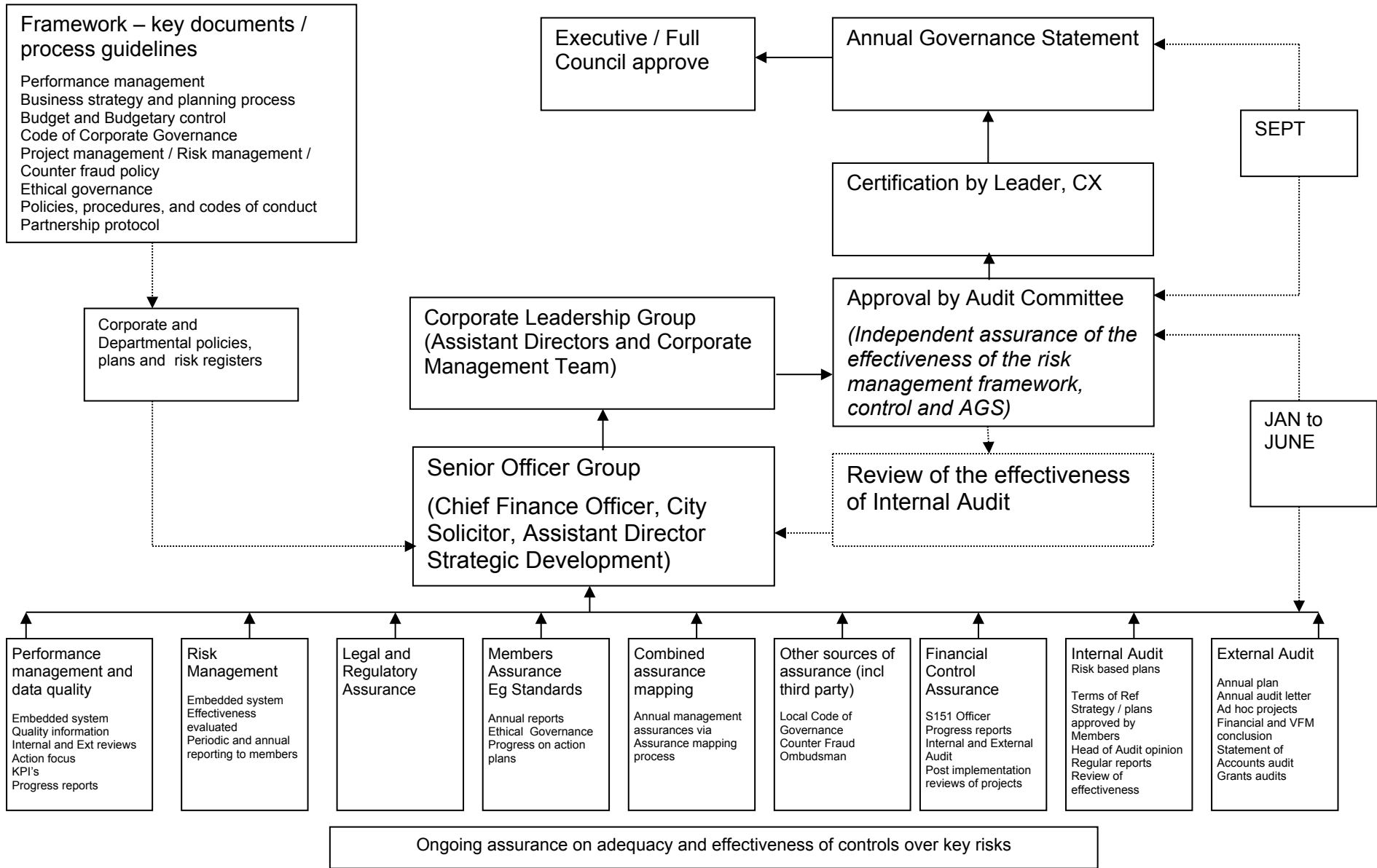
**PROCESS**

**Appendix 2**



# Annual Governance Statement (AGS) Framework Flowchart

# Appendix 3



51

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**CITY OF LINCOLN COUNCIL CODE OF CORPORATE GOVERNANCE  
PRACTICAL IMPLEMENTATION – SUPPLEMENTARY GUIDANCE**

March 2017



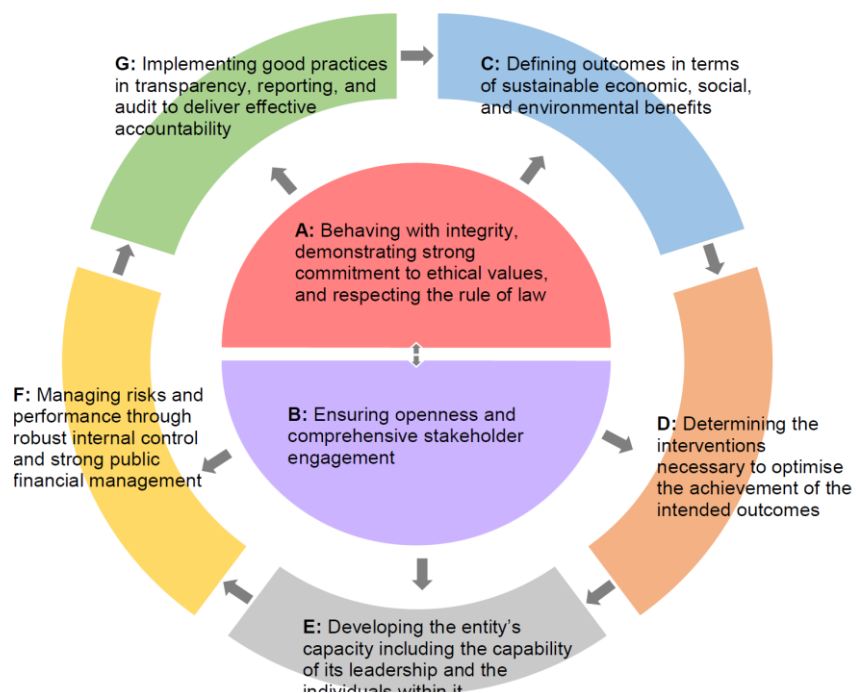
The Code of Corporate Governance comprises the principles under which we work and deliver services, listing the documents, processes and actions by which we ensure compliance with these principles.

The Regulations require a local authority to conduct a review, at least once a year, of the effectiveness of their systems of internal control and include an Annual Governance Statement reporting on the review as part of its statement of accounts.

The code is based on a set of seven core principles set out in the CIPFA publication ‘Delivering good governance in Local Government: Framework’ and sets out in detail how we comply with each of these principles, as well as a series of sub-principles. The core principles are:

- Core Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
- Core Principle B: Ensuring openness and comprehensive stakeholder engagement
- Core Principle C: Defining outcome in terms of sustainable economic, social, and environmental benefits
- Core Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes
- Core Principle E: Developing the entity’s capacity, including the capability of its leadership and the individuals within it
- Core Principle F: Managing risks and performance through robust internal control and strong public financial management
- Core Principle G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

The figure below sets out the relationship between the principles:



This document provides a summary of City of Lincoln Council's Code of Corporate Governance which provides more detail.

**Core Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

The Council is responsible for using public resources to provide services for our citizens. We are accountable for how much we spend and for the way we use the resources with which we have been entrusted. In addition, we have an overarching mission to serve the public interest, by adhering to the requirements of legislation and government policies.

Ethical values and standards are defined in the Council's Constitution and should form the basis for all our policies, procedures and actions as well as the behaviour of our Members and staff.

Council officers are often involved with interpreting laws and this demands a high standard of conduct to prevent the council being brought into disrepute. We should demonstrate a strong commitment to the rule of law as well as compliance with all relevant laws.

It is therefore essential that we can demonstrate the integrity of all our actions and that we have mechanisms in place that encourage and enforce a strong commitment to ethical values and legal compliance at all levels.

1. The Council will maintain shared values including leadership values (openness, support and respect) both for the Council and its officers. These are defined in the constitution and reflect public expectations about the conduct and behaviour of individuals.
2. We use shared values as a guide for decision making and as a basis for developing positive and trusting relationships within the Council. We demonstrate this by adhering to the constitution.
3. We have adopted formal codes of conduct setting out standards of personal behaviour for Members and officers.
4. We have an Audit Committee to raise awareness and take the lead in ensuring high standards of conduct are embedded within the Council's culture.
5. We have put in place arrangements to ensure that Members and staff of the Council are not influenced by prejudice, bias or conflicts of interest when engaging and making decisions with different stakeholders. Appropriate processes are in place to ensure that these arrangements are workable, including declaration of interests and anti-corruption policies.
6. We ensure that systems and processes for financial administration and control, together with protection of the Council's resources and assets, comply with ethical standards and are subject to monitoring of their effectiveness.
7. We will ensure availability of professional advice on matters that have legal or financial implications and this is recorded in advance of decision making if appropriate.
8. Officers will actively recognise the limits of lawful activity placed on them but at the same time work to utilise their powers to the full benefit of their communities.
9. Officers must observe all specific legislative requirements placed upon the Council as well as the requirements of general law, and in particular integrate the key principles of administrative law into procedures and decision making.
10. We have put in place effective systems to protect the rights of staff. We ensure that policies for whistle-blowing are in place and are accessible to staff and those contracting with the Council, as well as arrangements for the support of whistle-blowers.

11. We will publish an Annual Governance Statement, signed by the Chief Executive and the Leader of Council to confirm that we are satisfied that we have effective governance arrangements in place.

### **Core Principle B: Ensuring openness and comprehensive stakeholder engagement**

The council operates for the public good, and we make sure partners, in the private, public and voluntary sector as well individual citizens and service users are engaged in and have full access to information relating to decisions made. We therefore expect reports to decision makers to be open, provide all the necessary material to ensure informed decisions in the best interests of everyone in the city, and to have engaged stakeholders and service users in arriving at proposals under consideration. We must demonstrate that we act in the public interest at all times to maintain public trust and confidence. We should demonstrate clear reasoning for decision making and ensure that this is formally recorded for retrospective public scrutiny.

1. Vision 2020, which includes the council's vision, priorities, core values and strategic direction and action plan, has been through a robust development process, as well as consultation with key stakeholders, and is widely promoted. We will ensure that the Council's vision, strategic plans, priorities and targets are developed through robust mechanisms, and in consultation with the local community and other key stakeholders, and that they are clearly articulated and disseminated.
2. We will maintain a culture of accountability so that Members and Officers understand to whom they are accountable and for what.
3. We will strive to engage with stakeholders on an individual and collective basis to demonstrate that we deliver services and outcomes that meet the needs and expectations of the public. These arrangements will recognise that different sections of the community have different priorities and establish robust processes for dealing with these competing demands.
4. We will publish an annual report providing progress on Vision 2020, as well as financial statements, performance and the Annual Governance Statement.
5. We will deliver effective scrutiny of the Council's business as appropriate and produce an annual report on the activities of scrutiny function.
6. We will ensure that the Council as a whole is open and accessible to the community, service users and staff and we are committed to openness and transparency in all dealings. We will attempt to publish all committee agenda items under "part A" unless there is the need to preserve confidentiality where it is proper and appropriate to do so.

### **Core Principle C: Defining outcome in terms of sustainable economic, social, and environmental benefits**

Vision 2020 is a three year strategy and delivery plan, developed following wide consultation, and has an inclusive vision to deliver Lincoln's ambitious future. Progress towards achieving the vision, aligned with the key priorities, will be reported to and monitored by senior management and elected members. Service areas within directorates, and under the guidance of assistant directors, will be responsible for delivering individual projects to agreed timescales and budgets, with consideration for economic, social and environmental benefits which collectively will achieve our priorities.



In addition, the council produces a Medium Term Financial Plan which is a financial representation of the Council's Vision and supports the priorities and a People Strategy which demonstrates how we will develop the capability and capacity to deliver the priorities. These will be reviewed on a regular basis to ensure they continue to reflect the vision of the Council.

1. We have made a clear statement of the Council's purpose and vision and use it as a basis for corporate and service planning.
2. We will publish an annual report on a timely basis to communicate the Council's activities and achievements, its financial position and performance.
3. We will ensure that those making decisions are provided with financial and non-financial information that is fit for the purpose – relevant, timely and gives clear explanations of technical issues and their implications.
4. We will identify and monitor service performance indicators which demonstrate how the quality of service for users is to be measured. This will include a phased introduction of an effective data collection system for all priority services.
5. We maintain a prudential financial framework, balance commitments with available resources; and monitor income and expenditure levels to ensure this balance is achieved.
6. We ensure compliance with the CIPFA codes regarding a Prudential Framework for Capital Finance and Treasury Management.

#### **Core Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes**

The Council clearly defines its priorities and plans which are aimed at delivering the outcomes that the Council intends. These will focus on delivering effective and efficient services for the residents. We assess the risks of not achieving those outcomes and ensure that there are mitigating actions in place to support the achievement of intended outcomes. The Council's financial management arrangements ensure that there is adequate resource available to deliver those outcomes. The Council reviews progress against delivering those outcomes through its performance management arrangements.

1. We have made a clear statement of the Council's purpose and vision and use it as a basis for corporate and service planning.
2. We have risk management arrangements in place including mitigating actions to support the achievement of the Council's intended outcomes.
3. We have a local performance management framework in place which provides effective arrangements to monitor service delivery.
4. We will put in place effective arrangements to deal with a failure in service delivery and explore options for improving service delivery and outcomes for our residents.
5. We have prepared contingency arrangements including a disaster recovery plan, business continuity plan and arrangements for delivering services during adverse weather conditions.
6. We provide senior managers and Members with timely financial and performance information.
7. We ensure that budget calculations are robust and reserves are adequate.
8. The Lincoln Project Management Model provides a framework for effective management of all projects.

## **Core Principle E: Developing the entity's capacity, including the capability of its leadership and the individuals within it**

The council has a programme of review, linked to its financial sustainability programme aiming to ensure continual improvement. It also benchmarks, both at strategic and service level to ensure services operate efficiently and effectively.

A newly developed People Strategy will ensure the workforce have the necessary skills and behaviours to deliver the vision for the city, and are effectively engaged to champion the council's priorities.

The Council will develop and retain a management structure that provides leadership and creates the opportunity for staff to work effectively and efficiently to achieve the Council objectives. We will provide training and support to enable staff to develop their skills so they can achieve their full potential.

1. Through the constitution we have set out a clear statement of the respective roles and responsibilities of the Council's Executive Committee and individual Members.
2. We have set out a clear statement of the respective roles and responsibilities of all other committees and senior officers.
3. We have developed protocols to ensure effective communication between Council Members and officers in their respective roles.
4. We have developed protocols to ensure that the Leader and Chief Executive negotiate their respective roles early in their relationship and that a shared understanding of roles and objectives is maintained.
5. We have set out the terms and conditions for remuneration of Members and officers and publish an Annual Pay policy statement in accordance with the requirements of the Localism Act 2011.
6. We have determined a scheme of delegated and reserved powers within the constitution and ensure that the scheme is monitored and updated when required.
7. We will ensure that effective management arrangements are in place at the top of the organisation.
8. The Chief Executive is responsible and accountable to the Council for all aspects of operational management.
9. The Chief Finance Officer is the Section 151 Officer and is responsible to the Council for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control.
10. The Chief Finance Officer will lead the promotion and delivery of good financial management, safeguarding public money and ensuring appropriate, economic, efficient and effective use of funds, together with professional accountability for finance staff throughout the Council
11. The City Solicitor is the council's Monitoring Officer and responsible to the Council for ensuring that the constitution is adhered to.
12. We will assess the skills required by Members including the understanding of financial systems. We will agree a personal development plan to develop skills and address any training gaps, to enable roles to be carried out effectively.
13. We will assess the skills required by officers through the appraisal process and address any training gaps, to enable roles to be carried out effectively.

14. We will develop skills on a continuing basis to improve performance, including the ability to scrutinise and challenge and to recognise when outside expert advice is needed.
15. We will ensure that the statutory officers have the skills, resources and support necessary to effectively perform in their roles and that these roles are properly understood throughout the Council.

### **Core Principle F: Managing risks and performance through robust internal control and strong public financial management**

The Council recognises the need to implement an effective performance management system that will allow us to deliver services effectively and efficiently. We understand that risk management, internal control and strong financial management are essential for us to achieve our objectives and we have put appropriate arrangements in place.

1. We will maintain an effective Audit Committee which is independent of the executive and scrutiny functions.
2. We will enable the Chief Finance Officer to bring influence to bear on all material decisions and provide advice on the levels of reserves and balances to be retained.
3. We will ensure that risk management is embedded into the culture of the Council, with Members and managers at all levels recognising that risk management is part of their job. The council has a risk management strategy, directorate risk registers in place and all managers have received risk management training.
4. Internal control in the form of anti-fraud and whistle blowing policies as well as robust ICT security measures are in place. The council also has data management and data sharing policies and ensures compliance with the Local Government Transparency Code.
5. Performance is managed in accordance with the Local Performance Management Framework which has a 'golden thread' linking through from strategic to individual performance.
6. The council has an effective scrutiny function with three scrutiny committees (Performance, Community Leadership and Policy) and overarching co-ordinating group, in addition to a separate Audit Committee. Members scrutinise both internal decisions and external matters of concern in the community.
7. We will ensure our arrangements for financial and internal control and management of risk are formally addressed within the annual governance reports.
8. We will ensure effective internal control arrangements exist for sound financial management systems and processes.

### **Core Principle G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability**

The Council recognises that effective accountability is concerned not only with reporting on actions completed but ensuring stakeholders are able to understand and respond as the Council plans and carries out its activities in an open, transparent and proportionate manner.

1. We comply with the local government transparency code and publish all required information in a timely manner.
2. We have established a medium term business and financial planning process in order to deliver - a financial strategy ensuring sustainable finances, a robust annual budget process ensuring financial balance and an adequate monitoring process, all of which are subject to regular review.

3. We have put in place effective transparent and accessible arrangements for dealing with complaints.
4. We will maintain an effective, scrutiny function which encourages constructive challenge and enhances the Council's performance overall.
5. We will maintain an effective Audit Committee which is independent of the Executive and Scrutiny committees.
6. We will ensure an effective internal audit function is resourced and maintained.
7. We will maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based.
8. We will attempt to publish all committee agenda items under "part A" unless there is the need to preserve confidentiality where it is proper and appropriate to do so.
9. We will put in place arrangements for whistle-blowing to which staff and all those contracting with the Council have access.
10. We will produce clear, timely, complete and accurate information for budget holders and senior officers relating to the budgetary and financial performance of the Council.
11. We will maintain effective arrangements for determining the remuneration of senior staff and publish an Annual Pay Policy statement in accordance with the requirements of the Localism Act 2011.

## **Annual Review of Corporate Governance**

At the end of each financial year, the Council formally reviews the governance arrangements in place and produces an Annual Governance Statement.

The Annual Governance Statement includes:

- Scope of responsibility
- The purpose of the governance statement
- The Council's governance framework
- Review of effectiveness
- Assurance statements
- Internal Audit's opinion of the system of internal controls
- Financial management
- Significant governance and internal control issues
- Action plan
- Certification statement

The Annual Governance Statement addresses any actions arising from the previous years' Annual Governance Statement and highlights any actions arising from the year under review.

The Annual Governance Statement also assesses the effectiveness and application of the Local Code of Governance and identifies any necessary changes and makes any relevant recommendations to the Council.

As part of the Audit Committee's governance role, the formal annual review will be undertaken by the Audit Committee on behalf of the Council.

The Annual Governance Statement is signed by the Leader of Council and the Chief Executive, and is published with the Council's annual Statement of Accounts.

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<b>SUBJECT:</b>	<b>PRUDENTIAL INDICATORS 2017/18 – 2020/21 AND TREASURY MANAGEMENT STRATEGY 2018/19</b>
<b>DIRECTORATE:</b>	<b>CHIEF EXECUTIVE AND TOWN CLERK</b>
<b>REPORT AUTHOR:</b>	<b>SARAH HARDY, GROUP ACCOUNTANT (TECHNICAL AND EXCHEQUER)</b>

## 1. Purpose of Report

- 1.1 The purpose of the report is for Audit Committee to scrutinise and recommend to the Executive for approval the adoption of the 15 statutory prudential indicators and 8 local indicators for the period 2017/18 to 2020/21 together with the 2018/19 Treasury Management Strategy alongside the Medium Term Financial Strategy 2018-23, prior to their reporting to Council for final approval.

## 2. Executive Summary

- 2.1 The table below summarises the key prudential indicators which have been incorporated into the 2018/19 strategy. The projected capital expenditure will determine the capital financing or borrowing requirement, which will in turn determine the actual level of external borrowing taken and hence, cash balances available for investment. The figures are based on the draft Medium Term Financial Strategy which will be revised and presented in a final version to full Council as part of the annual budget setting meeting.

Key Prudential Indicators	2017/18 Revised £'000	2018/19 Estimated £'000	2019/20 Estimated £'000	2020/21 Estimated £'000
<b>Capital Expenditure*</b>				
• General Fund	30,357	1,590	500	500
• HRA	15,204	25,805	14,529	11,386
• Total	<b>45,561</b>	<b>27,395</b>	<b>15,029</b>	<b>11,886</b>
<b>Capital Financing Requirement</b>				
• Non HRA	51,730	51,657	50,727	48,728
• HRA	58,503	58,503	58,503	58,503
• Total	<b>110,233</b>	<b>110,160</b>	<b>109,230</b>	<b>107,231</b>
<b>Net Borrowing</b>	<b>64,513</b>	<b>71,096</b>	<b>64,459</b>	<b>65,499</b>
<b>External debt (borrowing only)</b>	<b>79,354</b>	<b>85,354</b>	<b>85,354</b>	<b>84,499</b>
<b>Investments**</b>				
• Longer than one year	0	0	0	0
• Under one year	15,400	14,600	21,000	19,000
• Total	<b>15,400</b>	<b>14,600</b>	<b>21,000</b>	<b>19,000</b>

\* Based on Draft MTFs 2018-23.

- 2.2 The methodology employed for selecting investment counterparties is a multi-stage formula based creditworthiness methodology provided by the Council's treasury management advisors, Link Asset Services. The aim of the investment strategy is to generate a list of highly creditworthy counterparties, allowing the Council to maintain a diversified portfolio of investments which safeguards the cash balances whilst generating a reasonable rate of return. The Link methodology, which incorporates credit ratings, credit outlooks and watches and overlays credit default swaps as a measure of market risk, fully meets the aim of the strategy.
- 2.3 The Strategy for 2018/19 has been prepared taking into account changes in the Prudential Code and Treasury Management Code.

### 3. Background

- 3.1 This report covers the operation of the Council's prudential indicators, its treasury function and its likely activities for the forthcoming year. It incorporates four key Council reporting requirements:
- **Prudential and Treasury Indicators** – the reporting of the statutory prudential indicators together with local indicators, in accordance with the requirements of the CIPFA Prudential Code for Capital Finance in Local Authorities and the CIPFA Treasury Management Code of Practice.
  - **Minimum Revenue Provision (MRP) Statement** – the reporting of the MRP policy which sets out how the Council will pay for capital assets through revenue each year (as required by regulation under the Local Government 2003)
  - **Treasury Management Strategy** – which sets out how the Council's treasury activity will support capital decisions, the day-to-day treasury management and the limitations on activity through treasury prudential indicators. The key indicator is the **Authorised Limit**, the maximum amount of debt the Council could afford in the short term, but which would not be sustainable in the longer term. This is the Authorised Borrowing Limit required by s3 of the Local Government Act 2003 and is in accordance with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code.
  - **Investment Strategy** – this is included within the Treasury Management Strategy and sets out the criteria for choosing investment counterparties and limiting exposure to the risk of loss. It is reported annually (in accordance with Department of Housing, Communities and Local Government (DHCLG) Investment Guidance).

### 4. Treasury Management Requirements 2018/19

#### 4.1 The Capital Prudential Indicators 2017/18 – 2020/21

- 4.1.1 The Council's capital expenditure plans are one of the key drivers of treasury management activity. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members to overview and confirm capital expenditure plans. The Local Government Act 2003 requires the



Council to adopt the CIPFA Prudential Code and to produce prudential indicators. The Prudential Code requires the Council to approve as a minimum the statutory indicators and limits. This report revises the indicators for 2017/18 and details them for 2018/19 to 2020/21. An explanation and calculation of each Prudential Indicator is provided in **Appendix 1** and the key messages summarised in section 4.1.3.

#### 4.1.2 Capital Expenditure and Financing

The Council's capital expenditure plans (as detailed in the Draft MTFs 2018-23) are summarised below. Capital expenditure can be paid for immediately (by resources such as capital receipts, capital grants or revenue resources) but if these resources are insufficient, any residual capital expenditure will form a borrowing need. This can be supported by government grant for the repayment of debt (very limited support available) or can be unsupported (prudential borrowing) where the Council needs to identify the resources to finance and repay debt through its own budget.

Indicators 1&2	2017/18 Revised £'000	2018/19 Estimated £'000	2019/20 Estimated £'000	2020/21 Estimated £'000
<b>Capital Expenditure</b>				
General Fund	30,357	1,590	500	500
HRA (including New Build)	15,204	25,805	14,529	11,386
<b>Total Expenditure</b>	<b>45,561</b>	<b>27,395</b>	<b>15,029</b>	<b>11,886</b>
<b>Financed by:</b>				
Capital receipts	4,383	5,375	2,501	0
Capital grants & contributions	3,702	420	300	300
Depreciation (HRA only)	13,957	18,168	12,028	11,386
Revenue/Reserve Contributions	468	2,612		
<b>Borrowing need</b>	<b>23,041</b>	<b>820</b>	<b>200</b>	<b>200</b>

#### 4.1.3 The Council's Borrowing Need - the Capital Financing Requirement (CFR)

The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either capital or revenue resources. It is essentially a measure of the Council's underlying borrowing need. Based on the capital expenditure plans in paragraph 4.1.2 the CFR for 2017/18 to 2020/21 is projected to be:

Indicators 3&4	2017/18 Revised £'000	2018/19 Estimated £'000	2019/20 Estimated £'000	2020/21 Estimated £'000
<b>Capital Financing Requirement</b>				
General Fund	51,730	51,657	50,727	48,728
HRA	58,503	58,503	58,503	58,503
<b>Total CFR @ 31 March</b>	<b>110,233</b>	<b>110,160</b>	<b>109,230</b>	<b>107,231</b>
<b>Net movement in CFR</b>	<b>21,557</b>	<b>-73</b>	<b>-930</b>	<b>-1,999</b>
Actual debt (borrowing & other liabilities)	79,913	85,696	85,459	84,499

Indicators 3&4	2017/18 Revised £'000	2018/19 Estimated £'000	2019/20 Estimated £'000	
Net borrowing need for the year	23,041	820	200	200
Return of LAMS deposit	-1,000	0	0	0
Minimum Revenue Provision (MRP)	-334	-743	-980	-1,194
Repayment of GENF borrowing				-855
Application of Capital Receipts to reduce CFR	-150	-150	-150	-150
<b>Movement in CFR</b>	<b>21,557</b>	<b>-73</b>	<b>-930</b>	<b>-1,999</b>

The CFR also includes any other long term liabilities (e.g. finance and embedded leases) brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility, so the Council is not required to separately borrow for them. The Council has £0.559m of such leases within the CFR in 2017/18 reducing to £0.105m by the end of 2019/20. The CFR does not yet include any allowance for the planned replacement of the majority of the vehicle fleet under leasing. If following a full financing options appraisal the most cost effective funding method is identified as either borrowing or finance lease then the CFR will be increased to reflect a borrowing requirement for the replacement fleet.

- 4.1.4 **Limits on Borrowing** – In order to ensure that borrowing decisions are based on consideration of affordability, prudence and sustainability and that treasury management decisions are taken in accordance with good professional practice, in full understanding of the risks involved and how these risks will be managed to levels that are acceptable to City of Lincoln Council, the Prudential Code requires that Council's set limits on borrowing activity.

**Limiting Borrowing for Capital Purposes** - the Council needs to ensure that its total borrowing net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. The Chief Finance Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future.

**Operational Boundary for External Debt** – boundary based on the expected maximum external debt during the course of the year

**Authorised Limit for External Debt** - represents the limit beyond which external debt is prohibited. It represents the level of debt, which while not desired, could be afforded in the short term, but is unsustainable in the long term. This limit needs to be set or revised by full Council.

The level of the proposed operational and authorised limits is based on an assessment of the level of borrowing required to meet the Capital Financing

Requirement (CFR) and also an allowance for temporary borrowing for working capital and also in lieu of other capital financing sources (e.g. capital receipts). Financial modelling has been carried out for both and the affordability and sustainability of the potential borrowing requirement has been assessed and can be contained within the Draft MTFS 2018-23. This is reflected in the table below and in the Prudential Indicators 7 and 8 tables in Appendix 1.

<b>Indicator 7</b>	<b>2017/18 Revised £'000</b>	<b>2018/19 Estimated £'000</b>	<b>2019/20 Estimated £'000</b>	<b>2020/21 Estimated £'000</b>
<b>Authorised limit</b>				
Borrowing	120,000	130,000	130,000	130,000
Other long term liabilities	2,500	1,800	1,300	800
<b>Total Authorised limit</b>	<b>122,250</b>	<b>131,800</b>	<b>131,300</b>	<b>130,800</b>

## **4.2 Minimum Revenue Provision (MRP) Policy**

- 4.2.1 The Council is required to pay off an element of the accumulated General Fund borrowing each year (the CFR) through a revenue charge - the Minimum Revenue Provision (MRP), and is also allowed to undertake additional voluntary payments (VRP). No revenue charge is currently required for the HRA. However, under self-financing, the HRA is now required to charge depreciation on its assets, which has been built into the revenue charges in the HRA 30 year Business Plan.

The Department of Communities and Local Government have issued statutory guidance on the options available for making prudent provision for the repayment of debt. The Council must have regard to this guidance. The guidance is not prescriptive and makes it clear that councils can follow an alternative approach, provided they still make a prudent provision. The broad aim of a 'prudent provision' is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits to service delivery.

Guidance issued by the Secretary of State requires that before the start of each financial year the Council prepares a statement of its policy on making MRP in respect of the forthcoming financial year and submits it to Full Council for approval. There are no changes proposed to the MRP policy for 2018/19.

The MRP policy statement is set out in **Appendix 2**.

## **4.3 The Treasury Management Strategy 2018/19**

- 4.3.1 Treasury Management is an important part of the overall financial management of the Council's affairs. The treasury management service performs the borrowing and investment activities of the Council and effectively manages the associated risks. Its activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management). The Treasury Management Policy and Practices and the annual Treasury Management Strategy provides the operational rules and limits by which day to day treasury management decisions are made.

4.3.2 The Treasury Management Strategy for 2018/19 is attached at **Appendix 3**. The strategy outlines expected treasury activity for the coming year and expected prudential indicators relating the treasury management for the next three years. The key principals in the strategy are summarised below.

- **Debt and Investment Projections (Treasury Management Strategy section 2)** – based on the budgeted borrowing requirements, estimated balances and cash flow, year-end debt and investment projections are:

	2017/18 Revised £'000	2018/19 Estimated £'000	2019/20 Estimated £'000	2020/21 Estimated £'000
<b>External Debt</b>				
Debt at 31 March (including other long term liabilities)	79,913	85,696	85,459	84,499
<b>Investments</b>				
Total Investments at 31 March	15,400	14,600	21,000	19,000

- **Expected Movement in Interest Rates (Treasury Management Strategy section 3)** - short term interest rates are not expected to rise until 2019/20 and then will rise slowly in future years. Long term rates for external borrowing are not expected to rise until December 2017 and then only marginally. After this they will continue to rise very slowly in future years.
- **Borrowing & Debt Strategy (Treasury Management Strategy section 4)** - The main aims are:
  - To reduce the revenue costs of debt
  - To manage the Council's debt maturity profile
  - To effect funding at the cheapest cost commensurate with future risk.
  - To forecast average future interest rates and borrow accordingly
  - To proactively reschedule debt in order to take advantage of potential savings as interest rates change.
  - To manage the day-to-day cash flow of the Authority in order to, where possible, negate the need for short-term borrowing.
- **Investment Strategy (Treasury Management Strategy section 5)** - The Council's investment strategy primary objectives are safeguarding the repayment of the principal and interest of its investments on time, then ensuring adequate liquidity, with investment return being the final objective.

The current investment climate continues to present one over-riding risk consideration, that of counterparty security risk. In order to fully consider counterparty risk factors when selecting investment counterparties, the Council employs the multi-stage formula based creditworthiness methodology provided by the Council's treasury management advisors, Link Asset Services. This methodology, developed by Link, uses credit ratings as the core criteria but also incorporates other market information on a mathematical basis. The methodology is continuously reviewed and changes are made in response to changes made by the credit rating agencies. There haven't been any major changes made to the credit rating methodology since last year's change when any reference to the implied levels of sovereign support (which

were phased out last year) were taken out. The current methodology is explained in detail in the Council's Investment Strategy 2018/19 in **Section 5 of Appendix 3**.

The aim of the investment strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk (i.e. placing a large proportion of investments with a small number of counterparties). The intention of the strategy is to provide security of investment and minimisation of risk.

Investment instruments identified for use are listed in **Appendix 3** under the specified and non-specified investments categories. Counterparty limits will be as shown in **Appendix 3**. Examples of institutions which currently fall under the various colour coded categories are as follows:

- Blue (part-government owned - 1 year)
- Orange (1 year)
- Green (100 days)
- Yellow (5 years) – Local Authorities.

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

The criteria to be used to select investment counterparties are set out in Appendix 3. These include:-

- Maintenance of a counterparty list with approved credit ratings and time and principal limits
- Regular monitoring of counterparties with the help of the Council's treasury management advisors
- Limits on the amounts on non-specified investments (e.g. over 1 year investments)
- Limits on non-UK counterparties

**Risk Benchmarking** – The revised CIPFA Code and the CLG Investment Guidance adopted 2<sup>nd</sup> March 2010 introduced the consideration and approval of security and liquidity benchmarks. The Investment Strategy for 2018/19 includes the following benchmarks for liquidity and security:-

*Liquidity* – The Council's bank overdraft limit is nil. The Council will seek to maintain liquid short-term deposits of at least £5,000,000 available with a week's notice. The weighted average life (WAL) of investments is expected to be 0.45years.

*Security* – the Council's expected security risk benchmark from its budgeted investment strategy is 0.008% historic risk of default when compared to the whole portfolio. This means that the risk amounts to approximately £0.001m on the expected investment portfolio of £14.6 million.

- **Treasury Limits on Activity (Treasury Management Strategy section 6)** – This section includes statutory and local indicators covering treasury management activity. These include limits on fixed and variable interest rate exposure, maturity structure of debt and performance targets for interest rates on new investments and loans.
- **Breakdown of Investment Categories (Treasury Management Strategy section 7)** – covers authorised posts for treasury management activities

The need to limit the risk to the Council of loss from counterparty failure results in a restricted range of counterparties available for investment.

#### **4.4 Treasury Management Practices**

The Council adopted the CIPFA Code of Practice on Treasury Management (which was revised December 2017) on 2<sup>nd</sup> March 2010. At this time the Treasury Management Policy Statement was also adopted. The Treasury Management Policy and Practices (TMP's) are updated annually to reflect the Treasury Management Strategy approved by Council and to reflect any changes in staffing structures or working practices of the treasury function.

A copy of the Treasury Management Practices are attached to this report as Appendix 4.

### **5. Organisational Impacts**

#### 5.1 Finance

Financial implications are contained in the main body of the report.

#### 5.2 Legal Implications

The Treasury Management Strategy and Prudential Indicators meet the requirements under legislation and code of practice.

### **6. Risk Implications**

The risk implications are contained within the body of the report.

### **7. Recommendations**

#### 7.1 Audit Committee are recommended to:

7.2 Review and recommend for approval by the Executive and Council the prudential indicators detailed in section 4.1 and appendix 1 of the report.

7.3 Review and recommend for approval by Executive and Council the Treasury Management Strategy (including the treasury management prudential indicators and the Investment Strategy) set out section 4.3 and appendix 3 of the report.

<b>Is this a key decision?</b>	Yes
<b>Do the exempt information categories apply?</b>	No
<b>Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply?</b>	No
<b>How many appendices does the report contain?</b>	4
<b>List of Background Papers:</b>	Draft Medium Term Financial Strategy 2018-23 CIPFA Code of Practice CIPFA Prudential Code Treasury Management Practices
<b>Lead Officer:</b>	Sarah Hardy, Group Accountant (Technical and Exchequer) Telephone (01522) 873839

## **Prudential Indicators 2017/18 – 2020/21**

### **1.0 Introduction**

- 1.1 The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and to produce prudential indicators. The Code sets out a framework for self-regulation of capital spending, in effect allowing councils to invest in capital projects without any limit as long as they are affordable, prudent and sustainable. The Prudential Code operates by the provision of prudential indicators, which highlight particular aspects of the capital expenditure planning. This report revises the indicators for 2017/18 and details them for 2018/19-2020/21. Each indicator either summarises the expected capital activity or introduces limits upon the activity, and reflects the outcomes of the Council's underlying capital appraisal systems.
- 1.2 The Prudential Code requires the Executive and full Council to approve as a minimum the 15 statutory indicators. The Chief Finance Officer has added 8 local indicators that are believed to add value and assist understanding of the main indicators.
- 1.3 The purpose of the indicators is to provide a framework for capital expenditure decision-making. It highlights, through the prudential indicators, the level of capital expenditure, the impact on borrowing and investment levels and the overall controls in place to ensure the activity remains affordable, prudent and sustainable.
- 1.4 Within this overall capital expenditure framework there is a clear impact on the Council's treasury management activity, either through increased borrowing levels or the investment of surplus balances. As a consequence the treasury management strategy for 2018/19 (see Appendix 3) includes the expected treasury management activity, together with the 5 specific Prudential indicators and 8 local indicators, which relate to treasury management.
- 1.5 The 15 statutory prudential indicators can be categorised under the following four headings:
- Capital Expenditure and External Debt (numbers 1, 2, 3, 4, 5, 7, 8)
  - Prudence (number 6)
  - Affordability (numbers 9,10)
  - Treasury Management limits (numbers 11, 12, 13, 14, 15)
- (The numbers above relate to the reference given to each indicator).
- 1.6 The paragraphs 2 to 4 below detail the 10 statutory indicators under the headings of Capital Expenditure/External Debt, Prudence and Affordability. The remaining 5 statutory and 8 local indicators relating to the treasury management strategy are set out in appendix 3.

### **2.0 Capital Expenditure Prudential Indicators**

- 2.1 The Council's capital expenditure plans are summarised below and this forms the first of the prudential indicators. This expenditure can be paid for immediately (by



resources such as capital receipts, capital grants etc.), but if resources are insufficient any residual expenditure will form a borrowing need.

2.2 A certain level of capital expenditure may be supported by government grant; any decisions by Council to spend above this level will be unsupported and will need to be paid for from the Council's own resources. This unsupported capital expenditure needs to have regard to:

- Service objectives e.g. strategic planning
- Stewardship of assets e.g. asset management planning
- Value for money
- Prudence and sustainability e.g. implications for external borrowing and whole life costing
- Affordability
- Practicality e.g. achievability of plan

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

The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been required.

2.3 The key risks to the plans are that some estimates for sources of funding, such as capital receipts, may be subject to change over this timescale. For instance, anticipated asset sales may be postponed due to the impact of the recession on the property market.

2.4 The summary capital expenditure and financing projections are shown in the table below.

Indicators 1&2	2017/18 Revised £'000	2018/19 Estimated £'000	2019/20 Estimated £'000	2020/21 Estimated £'000
<b>Capital Expenditure</b>				
General Fund	30,357	1,590	500	500
HRA (including New Build)	15,204	25,805	14,529	11,386
<b>Total Expenditure</b>	<b>45,561</b>	<b>27,395</b>	<b>15,029</b>	<b>11,886</b>
<b>Financed by:</b>				
Capital receipts	4,383	5,375	2,501	0
Capital grants & contributions	3,702	420	300	300
Depreciation (HRA only)	13,957	18,168	12,028	11,386
Revenue/Reserve Contributions	478	2,612		
<b>Borrowing need</b>	<b>23,041</b>	<b>820</b>	<b>200</b>	<b>200</b>

### 3.0 External Debt and Prudence Prudential Indicators

3.1 **Borrowing Need** - The Council's Capital Financing Requirement (CFR) represents the Council's borrowing need. The CFR is simply the total outstanding capital expenditure, which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. The capital expenditure above which has not immediately been paid for will increase the CFR.

- 3.2 The CFR also includes any other long term liabilities (e.g. finance and embedded leases) brought on to the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, they are purely accounting adjustments and include a borrowing facility, so the Council is not required to separately borrow for them. The Council has £0.559m of such leases within the CFR in 2017/18 reducing to £0.105m by the end of 2019/20. The CFR does not yet include any allowance for the planned replacement of the majority of the vehicle fleet under leasing arrangements.
- 3.3 Capital Financing Requirement projections are detailed below:

<b>Indicators 3&amp;4</b>	<b>2017/18 Revised £'000</b>	<b>2018/19 Estimated £'000</b>	<b>2019/20 Estimated £'000</b>	<b>2020/21 Estimated £'000</b>
<b>Capital Financing Requirement</b>				
General Fund	51,730	51,657	50,727	48,728
HRA	58,503	58,503	58,503	58,503
<b>Total CFR @ 31 March</b>	<b>110,233</b>	<b>110,160</b>	<b>109,230</b>	<b>107,231</b>
<b>Net movement in CFR</b>	<b>21,557</b>	<b>-73</b>	<b>-930</b>	<b>-1,999</b>
Actual debt (borrowing & other liabilities)	79,913	85,696	85,459	84,499
Net borrowing need for the year	23,041	820	200	200
Return of LAMS deposit	-1,000	0	0	0
Minimum Revenue Provision (MRP)	-334	-743	-980	-1,194
Repayment of GENF borrowing				-855
Application of Capital Receipts to reduce CFR	-150	-150	-150	-150
<b>Movement in CFR</b>	<b>21,557</b>	<b>-73</b>	<b>-930</b>	<b>-1,999</b>

\* MRP = Minimum Revenue Provision – Statutory requirement to annually fund the repayment of General Fund borrowing.

- 3.4 **Estimates of External Debt** - The expected impact of the capital expenditure decisions on the Council's net debt position is shown below:

<b>Indicator 5</b>	<b>2017/18 Revised £'000</b>	<b>2018/19 Estimated £'000</b>	<b>2019/20 Estimated £'000</b>	<b>2020/21 Estimated £'000</b>
<b>External Debt</b>				
Gross Borrowing	79,354	85,354	85,354	84,499
Other Long Term Liabilities*	559	342	105	0
<b>Total Debt at 31 March</b>	<b>79,913</b>	<b>85,696</b>	<b>85,459</b>	<b>84,499</b>

\*Other Long Term liabilities include finance leases

- 3.5 The expected movement in the CFR over the next three years is dependent on the level of capital borrowing taken during the budget cycle. Such borrowing is the capital expenditure freedom allowed under the Prudential Code i.e. prudential borrowing which allows the freedom to enter into projects such as spend to save schemes, or decisions to allocate additional resources from revenue to capital to enable service enhancements (subject to affordability).
- 3.6 There are two limiting factors on the Council's ability to undertake prudential borrowing:
1. Whether the revenue resource is available to support in full the implications of capital expenditure, both borrowing costs and running costs. Can the Council afford the implications of the capital expenditure?
  2. The Government may use a long stop control to ensure that either the total of all the Councils' plans do not jeopardise national economic policies, or in the event of an assessment by Central Government that local plans are unaffordable at a council, it may implement a specific control to limit its capital expenditure plans. No such control has been implemented during 2017/18.
- 3.7 **Limits to Borrowing Activity** - Within the prudential indicators there are a number of key indicators to ensure the Council operates its activities within well-defined limits.
- 3.8 For the first of these the Council needs to ensure that its total borrowing net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and next two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue purposes.

<b>Indicator 6</b>	<b>2017/18 Revised £'000</b>	<b>2018/19 Estimated £'000</b>	<b>2019/20 Estimated £'000</b>	<b>2020/21 Estimated £'000</b>
Gross Borrowing	79,913	85,696	85,459	84,499
Investments	15,400	14,600	21,000	19,000
Net Borrowing	<b>64,513</b>	<b>71,096</b>	<b>64,459</b>	<b>65,499</b>
CFR	<b>110,233</b>	<b>110,160</b>	<b>109,230</b>	<b>107,231</b>
Net Borrowing is below CFR	45,720	39,064	44,771	41,732

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

- 3.9 A further two key prudential indicators control or anticipate the overall level of borrowing, these are:

- **The Authorised Limit for External Debt** – This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Council. It reflects the level of external debt, which while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3(1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been exercised.
- **The Operational Boundary for External Debt** – This indicator is based on the expected maximum external debt during the course of one year; it is not a limit and actual borrowing could vary around the boundary for short times during the year.

The level of the proposed operational and authorised limits is based on an assessment of the level of borrowing required to meet the Capital Financing Requirement (CFR) and also an allowance for temporary borrowing for working capital and also in lieu of other capital financing sources (e.g. capital receipts). The limits proposed for the 2018/19 Treasury Management Strategy also allow for the borrowing requirement associated with the Lincoln Transport Hub scheme and the purchase of Broadgate Carpark. The affordability and sustainability of the borrowing requirement for both have been assessed and can be contained within the Draft MTFs 2018-23. The operational and authorised limits for 2018/19 have been set to allow these.

Indicator 7	2017/18 Revised £'000	2018/19 Estimated £'000	2019/20 Estimated £'000	2020/21 Estimated £'000
<b>Authorised Limit</b>				
Borrowing	120,000	130,000	130,000	130,000
Other long term liabilities*	2,500	1,800	1,300	800
<b>Total Authorised Limit</b>	<b>122,250</b>	<b>131,800</b>	<b>131,300</b>	<b>130,800</b>

Indicator 8	2017/18 Revised £'000	2018/19 Estimated £'000	2019/20 Estimated £'000	2020/21 Estimated £'000
<b>Operational Boundary</b>				
Borrowing	115,000	123,000	122,000	120,000
Other long term liabilities*	2,000	1,600	1,100	700
<b>Total Operational Boundary</b>	<b>117,000</b>	<b>124,600</b>	<b>123,000</b>	<b>120,700</b>

\*Other Long Term liabilities include finance leases

### 3.10

**Borrowing in advance of need** – The Council has some flexibility to borrow funds this year for use in future years. The Chief Finance Officer may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. Whilst the Chief Finance Officer will adopt a cautious approach to any such borrowing, where there is a clear business case for doing so borrowing may be undertaken to fund the approved capital programme or to fund future debt

maturities. Borrowing in advance will be made within the constraints that:

- It will be limited to no more than 75% of the expected increase in borrowing need (CFR) over the three year planning period; and
- Would not look to borrow more than 36 months in advance of need

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

#### 4.0 Affordability Prudential Indicators

4.1 The 8 statutory indicators above cover the overall capital and control of borrowing, but in addition, within this framework, there are further indicators that assess the affordability of the capital investment plans. These indicators provide an indication of the impact of the capital investment plans on the Council's overall finances and these are shown below:

4.2 **Actual and Estimates of the Ratio of Financing Costs to Net Revenue Stream (Indicators 9 & 10)** – This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. The estimates of financing costs include current commitments and the proposals in this budget. The General Fund financing costs increase across the MTFS period. This reflects the need to borrow to support the capital programme.

The HRA financing costs decrease very marginally year on year. As there is no planned borrowing to fund the capital programme this has no impact on the financing costs over the four year period.

Neither the General Fund nor the HRA indicators include the effect of replacing some of the finance leases for vehicles replaced in 2015/16 and 2016/17 yet. This may increase the interest charges if finance leasing or borrowing if it is the most cost effective method of financing.

Indicators 9 & 10	2017/18 Revised £'000	2018/19 Estimated £'000	2019/20 Estimated £'000	2020/21 Estimated £'000
General Fund	12.6%	13.4%	17%	18.6%
HRA	45.6%	44.4%	43.4%	42.8%

4.3 **Estimates of the incremental impact of capital investment decisions on the Council Tax** – This indicator has been discontinued following an update to the code in December 2017.

4.4 **Estimates of the incremental impact of capital investment decisions on Housing Rent Levels** – This indicator has been discontinued following an update to the code in December 2017.

## Minimum Revenue Provision (MRP) Policy

1.0 The Council is required to pay off an element of the accumulated General Fund borrowing each year through a revenue charge (the Minimum Revenue Provision), and is also allowed to undertake additional voluntary payments (VRP).

1.1 CLG Regulations have been issued which require full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided so long as there is a prudent provision.

1.2 Members are recommended to approve the following MRP Statement:

For capital expenditure incurred:

(A) Before 1<sup>st</sup> April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

**Existing practice** - MRP will follow the existing practice outline in former DHCLG Regulations, but on a 2% straight-line basis, i.e. provision for the full repayment of debt over 50 years;

(B) From 1<sup>st</sup> April 2008 for all unsupported borrowing (including finance leases) the MRP policy will be:

**Asset Life Method** – MRP will be based on the estimated life of the assets on either a straight line or annuity basis (as deemed most appropriate for capital expenditure being financed through borrowing). Asset life is deemed to begin once the asset becomes operational. MRP will commence from the financial year following the one in which the asset becomes operational.

MRP in respect of unsupported borrowing taken to meet expenditure, which is treated as capital expenditure by virtue of either a capitalisation direction or regulations, will be determined in accordance with the asset life method as recommended by the statutory guidance.

(C) The Council will set aside £750k of capital receipts to the Capital Adjustment Account instead of applying these receipts to new expenditure in order to reduce the total debt liability (this will be £150k per annum over the period 2017/18 to 2021/22). The Council will reduce the MRP provision for the year by the same amount.

(D) Expenditure in respect of land purchases will increase the Capital Financing Requirement (CFR) by the borrowing required to fund the purchase which will be repaid by the future sale of the asset. Once the asset is sold and the funds are realised they will be classed as a capital receipt and will be off-set against the CFR which will reduce accordingly. As the funds will be returned in full there is no need to set aside prudent provision to repay the debt liability so no MRP will be applied in respect of this type of purchase.

## Treasury Management Strategy 2018/19

### 1.0 Introduction

- 1.1 Treasury Management is an important part of the overall financial management of the Council's affairs. Its importance has increased as a result of the freedoms provided by the Prudential Code. The 12 prudential indicators in Appendix 1 cover the affordability and impact of capital expenditure decisions and set out the Council's overall capital framework. The treasury service considers the effective funding of these decisions. Together they form part of the process which ensures the Council meets its balanced budget requirement under the Local Government Finance Act 1992. There are 5 specific statutory treasury management prudential indicators and 8 local indicators.
- 1.2 The treasury management service performs the borrowing and investment activities of the Council and effectively manages the associated risks. Its activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management - Revised December 2017). The adoption of the Code is one of the 12 statutory Prudential Indicators. This Council adopted the Code of Practice on Treasury Management on 2<sup>nd</sup> March 2010. As a result of adopting the Code, the Council also adopted a Treasury Management Policy Statement on 2<sup>nd</sup> March 2010.
- 1.3 The policy requires an annual strategy to be reported to Council outlining the expected treasury activity for the forthcoming year and includes prudential indicators relating specifically to Treasury Management for the next three years. Further reports are produced; a mid-year monitoring report and a year-end report on actual activity for the year (Annual Treasury Management Stewardship Report). In addition, Treasury Management Practice (TMPs) documents are also maintained by the Chief Finance Officer. The TMPs have been reviewed and updated to reflect any changes in the Treasury Management Strategy and are attached as appendix 4.
- 1.4 A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. This strategy covers:
- The Council's debt and investment projections;
  - The expected movement in interest rates;
  - The Council's borrowing strategy;
  - The Council's investment strategy;
  - Treasury Management prudential indicators and limits on activity;
  - Local Treasury issues

### 2.0 Debt and Investment Projections 2017/18 – 2020/21

- 2.1 The borrowing requirement comprises the expected movement in the Capital Financing Requirement (CFR) and any maturing debt that will need to be re-financed. The table below shows the anticipated effect on the treasury position over the current and next three years based on the current capital programme. The expected maximum debt position during each year represents the Operational Boundary prudential indicator (for borrowing only) and so may be different from the year-end position. It also highlights the expected change in investment balances.

	2017/18 Revised £'000	2018/19 Estimated £'000	2019/20 Estimated £'000	2020/21 Estimated £'000
<b>External Debt</b>				
Debt at 1 April	75,354	79,354	85,354	85,354
Expected change in debt	4,000	6,000	0	(855)
Debt at 31 March	79,354	85,354	85,354	84,499
Operational Boundary (debt only)	115,000	123,000	122,000	120,000
<b>Investments</b>				
Total Investments at 31 March	15,400	14,600	21,000	19,000
Investment change	(8,000)	(800)	6,400	(2,000)

Expected borrowing has been profiled to take out loans before current low borrowing interest rates are forecast to rise.

2.2 The related impact of the above movements on the revenue budgets are:

	2017/18 Revised £'000	2018/19 Estimated £'000	2019/20 Estimated £'000	2020/21 Estimated £'000
<b>Revenue Budgets</b>				
Total interest payable on borrowing	3,140	3,120	3,255	3184
Related HRA charge	2,352	2,352	2,352	2,332
Net General Fund interest payable	788	848	903	852
<b>Revenue Income</b>				
Total investment income	113	77	132	149
Related HRA income share	31	31	32	38
Related to other commitments	19	17	17	17
Net General Fund income	63	29	83	94

### 3.0 Prospects for Interest Rates

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

The following table gives the Link central view and paragraph 3.1 give Link's view on economic prospects.

Annual Average %	Bank Rate	PWLB Rates*		
		5 year	25 year	50 year
March 2018	0.50	1.60	2.90	2.60
March 2019	0.75	1.80	3.10	2.90
March 2020	1.00	2.10	3.40	3.20
March 2021	1.25	2.30	3.60	3.40

\* Borrowing Rates



### 3.1 Economic Growth (Link's view)

**UK.** After the UK surprised on the upside with strong economic growth in 2016, **growth in 2017 has been disappointingly weak**; quarter 1 came in at only +0.3% (+1.8% y/y), quarter 2 was +0.3% (+1.5% y/y) and quarter 3 was +0.4% (+1.5% y/y). The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the EU referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 80% of GDP, has seen weak growth as consumers cut back on their expenditure.

The **Monetary Policy Committee, (MPC), meeting of 14th September 2017** surprised financial markets and forecasters by warning that the Bank Rate would need to rise soon. At the 2<sup>nd</sup> November meeting the MPC increased the Bank Rate by 0.25% to 0.50% and gave forward guidance that they expected to increase rates only twice more in the next three years to reach 1% by 2020.

The other key factor in forecasts for Bank Rate is **inflation** where the MPC aims for a target for CPI of 2.0%. The Bank of England have indicated that it expects CPI inflation to peak at just under 3% in 2017 before falling back to near its target rate in two years' time.

While there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is difficult to be confident about how the next two to three years will actually turn out.

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

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

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

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

#### **4.0 The Council's Borrowing and Debt Strategy 2018/19**

- 4.1 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the CFR), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is high and will be maintained for the borrowing.
- 4.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2018/19 treasury operations. The Chief Finance Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances as follows.
- 4.3 If it was felt that there was a significant risk of a sharp fall in long term rates e.g. due to a marked increase of risks around a relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
- 4.4 If it was felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still relatively cheap.
- 4.5 The Council's overall core borrowing objectives will remain uniform and follow a similar pattern to previous years as follows:
- To reduce the revenue costs of debt in line with the targets set for the Chief Finance officer (see local indicators).
  - To manage the Council's debt maturity profile, leaving no one future year with a high level of repayments that might cause problems in re-borrowing.
  - To effect funding at the cheapest cost commensurate with future risk.
  - To forecast average future interest rates and borrow accordingly i.e. short term/variable when rates are 'high', long term/fixed when rates are 'low'.
  - To monitor and review the level of variable rate loans in order to take greater advantage of interest rate movements.
  - To proactively reschedule debt in order to take advantage of potential savings as interest rates change. Each rescheduling exercise will be considered in terms of the effect of premiums and discounts on the General Fund and the Housing Revenue Account.
  - To manage the day-to-day cash flow of the Council in order to, where possible, negate the need for short-term borrowing. However, short-term

borrowing will be incurred, if it is deemed prudent to take advantage of good investment rates.

- 4.6 There is unsupported borrowing in the General Fund Investment Programme (GIP) as detailed in the MTFS. The Council expects to take out loans for the General Fund before current low borrowing interest rates are forecast to rise significantly, and it will continue to use internal balances whilst interest rates on investments remain low. Officers are continually evaluating the cost effectiveness of borrowing as opposed to selling capital assets. Proposals are presented to Members when borrowing becomes more cost effective.
- 4.7 There are currently no plans to borrow for the HRA planned new build programme during the next MTFS period, starting in 2018/19. It is planned to fund the programme using alternative sources of funding.
- 4.8 The strategy allows for additional borrowing in line with the expected movement in the Capital Financing Requirement (CFR), should it become necessary for cash flow requirements. The Council will consider PWLB loans, Market loans, the Municipal Bond Agency and other financial institutions, if attractive rates are offered. In addition, should schemes be identified that benefit the Council's strategic aims and be deemed cost effective, i.e. Invest to Save schemes where the income streams more than pay for the borrowing costs, unsupported borrowing will be considered.

## 5.0 The Council's Investment Strategy 2018/19

- 5.1 The Council's investment strategy's primary objectives are safeguarding the repayment of the principal and interest of its investments on time, ensuring adequate liquidity, with the investment return being the final objective.

The intention of the strategy is to provide security of investment and minimisation of risk.

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

In line with this aim, the Council will ensure:

- It maintains a policy covering the types of specified and unspecified investments it will invest in, criteria for choosing investment counterparties with adequate security and monitoring their security. This is set out in the paragraphs below.
  - **Specified Investments** – these are high security investments (i.e. high credit quality) and high liquidity investments in sterling with a maturity of no more than one year.
  - **Non-specified Investments** – investments that do not fall into the category of Specified Investments, representing a potential greater risk (e.g. over one year).
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

## 5.2 Risk benchmarking

Yield benchmarks are widely used to assess investment performance. Discrete security and liquidity benchmarks are also requirements to Treasury Management reporting, although the application of these is more subjective in nature. Additional background in the approach taken is shown at the end of this appendix.

5.3 These benchmarks are simple guides to maximum risk and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report.

## 5.4 Security

The Council's expected security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- 0.008% historic risk of default when compared to the whole portfolio.

## 5.5 Liquidity

In respect of this area the Council seeks to maintain:

- Bank overdraft - £nil.
- Liquid short term deposits of at least £5 million available with a week's notice.
- Weighted Average Life benchmark is expected to be 0.45 years.

## 5.6 Yield

Local measure of yield benchmark employed is:

- Investments – return above the 7 day LIBID rate

## 5.7 Investment Counterparty Selection Criteria

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

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below.

It has sufficient liquidity in its investments. For the purpose it will set out procedures for determining the maximum periods for which funds may be prudently committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

5.8 The Chief Finance Officer will maintain a counterparty list in compliance with the criteria set out in the table contained within this appendix and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which chooses Specified and Non-Specified investments as they provide an overall pool of counterparties considered high quality which the

Council may use rather than defining what its investments are.

5.9 Following the Comprehensive Spending Review on the Council's grant funding settlement and the ongoing financial pressures, the identification of savings and income generation are critical to the delivery of the Medium Term Financial Strategy. Treasury Management is an important area for further income generation and therefore, the main theme of the Council's investment strategy must continue to be to maximise interest from investments, after ensuring adequate security and liquidity. The Investment Strategy 2018-19 seeks to achieve this objective by establishing a pool of counterparties available for investment whilst still containing overall risk within acceptable levels.

5.10 The Council uses Link Asset Services' creditworthiness service. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies – Fitch, Moody's and Standard and Poor's.

In accordance with the guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

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

Alongside the credit ratings other information sources are used and include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process with regard to the suitability of potential investment counterparties.

The credit ratings of counterparties are supplemented with the following overlays:

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

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

Yellow	5 years
Purple	2 years
Blue	1 year (only applies to part-government owned UK banks)
Orange	1 year
Red	6 months
Green	100 days
No colour	Not to be used

The Link Asset Services creditworthiness service uses a wider array of information than primary ratings alone and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

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

The credit ratings specified above are defined as follows:-

F1 (short term rating) – Highest credit quality

A- (long term rating) – High credit quality, denoting a very strong bank

- 5.12 All credit ratings will be monitored regularly. The Council is alerted to changes to ratings of all three agencies through its use of Link's creditworthiness service.

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

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

5.13 **Country and sector considerations**

Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part the country selection will be chosen by the credit rating of the Sovereign state. In addition:

- No more than 50% will be placed with any non-UK country at any time (see below).
- Group limits have been set to ensure that the Council is not exposed to excessive risk due to concentration of investments within any one institution or group. These are detailed in the Investment Counterparty Limits table

contained within this appendix.

Although the strategy sets a limit for investment in non-UK countries at no more than 50%, the Council has been operating a tighter operational strategy in the light of the Eurozone difficulties and has not been investing outside the UK. This operational restriction will continue until the problems in the Eurozone economy have been sufficiently resolved.

- 5.14 In the normal course of the Council's cash flow operations it is expected that both Specified and Non-specified investments will be used for the control of liquidity as both categories allow for short-term investments. The Chief Finance Officer will strive to keep investments within the Non-specified category to a prudent level (having regard to security and liquidity before yield). To these ends the Council will maintain a maximum of 75% of investments in Non-specified investments.
- 5.15 The use of longer-term instruments (greater than one year from inception to repayment) will fall in the Non-specified investment category. These instruments will only be used where the Council's liquidity requirements are safeguarded. The investment in longer-term instruments is also limited by the prudential indicator 16 shown in paragraph 6.3, which gives the maximum amount to be invested over 1 year, as well as the limits on the amounts that can be placed with the categories within the non-specified range of investments (see above paragraph 5.14).
- 5.16 Expectations on shorter-term interest rates, on which investment decisions are based, reflect the fact that an increase in the current 0.50% Bank Rate is unlikely until December 2018. The Council's investment decisions are based on comparisons between the rises priced into market rates against the Council's and advisers own forecasts.
- 5.17 There is a clear operational difficulty arising from the ongoing economic conditions. Ideally investments would be invested longer to secure better returns, however uncertainty over counterparty creditworthiness suggests shorter dated investments would provide better security
- 5.18 The criteria for choosing counterparties set out above provide a sound approach to investment in the current difficult market circumstances.

#### **5.19 Sensitivity to Interest Rate Movements**

The Council's Statement of Accounts is required to disclose the impact of risks on the Council's treasury management activity. Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified. The table below highlights the estimated impact of a 0.5% increase/decrease in the average interest rates for investments for next year. That element of the debt and investment portfolios, which are of a longer term, fixed interest rate nature, will not be affected by interest rate changes. There will be no effect on borrowing costs as all the Council's existing debt is fixed rate and the additional borrowing planned will also be fixed rate and has been included within the budget figures in this report at the forecast rate for 2018/19.

£000	2018/19 Estimated + 0.5%	2018/19 Estimated - 0.5%*
<b>Revenue Budgets</b>		
Investment income	76,869	0
Related HRA Income	30,795	0
Net General Fund/Other Income	46,073	0

\*The average interest rates on investment are 0.5% so if interest rates fell by this amount they would be zero which would result in no interest being earned

## 6.0 Treasury Management Limits on Activity

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

- **Upper limit on variable rate exposure** – this identifies a maximum limit for variable interest rates based upon the debt position net of investments.
- **Upper limit on fixed rate exposure** – Similar to the previous indicator this covers a maximum limit on fixed interest rates.
- **Maturity structures of borrowing** – These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing at the same time and are required for upper and lower limits.
- **Total principal sums invested for periods longer than 1 year** – These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

6.2 In addition the Chief Finance Officer has set eight additional local indicators. The aim of these indicators is to increase the understanding of the treasury management indicators.

6.3 The 4 treasury limits above together with the adoption of the Code of Practice indicators are shown below:

Indicator 11	2018/19 Target £m	2019/20 Target £m	2020/21 Target £m
<b>Upper Limit on variable interest rate exposure</b>	34.1	34.1	33.8



<b>Indicator 12</b>	<b>2018/19 Target £m</b>	<b>2019/20 Target £m</b>	<b>2020/21 Target £m</b>
<b>Upper Limit on fixed interest rate exposure</b>	81.7	80.1	79.7

<b>Indicator 13</b>	<b>2018/19</b>		<b>2019/20</b>		<b>2020/21</b>	
<b>Maturity Structure of fixed borrowing</b>	<b>Lower</b>	<b>Upper</b>	<b>Lower</b>	<b>Upper</b>	<b>Lower</b>	<b>Upper</b>
Under 12 months	0%	40%	0%	40%	0%	40%
12 months to 2 years	0%	40%	0%	40%	0%	40%
2 years to 5 years	0%	60%	0%	60%	0%	60%
5 years to 10 years	0%	80%	0%	80%	0%	80%
10 years and above	10%	100%	10%	100%	10%	100%

<b>Indicator 14</b>	<b>2018/19 £m</b>	<b>2019/20 £m</b>	<b>2020/21 £m</b>
<b>Maximum principal sums invested for longer than 1 year</b>	5	5	5

<b>Indicator 15</b>
<b>CIPFA Code of Practice for Treasury Management in the Public Services (Revised December 2017) adopted by Council on 2<sup>nd</sup> March 2010.</b>

6.4 The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury management function over the year. The Chief Finance Officer has therefore set 8 local indicators, which are believed to add value and assist the understanding of the main prudential indicators. These indicators are:

- Debt – Borrowing rate achieved against average 7 day LIBOR.
- Investments – Investment rate achieved against average 7 day LIBID.
- Average rate of interest paid on the Councils Debt – this will evaluate performance in managing the debt portfolio to release revenue savings.
- Amount of interest on debt as a percentage of gross revenue expenditure.
- Limit on fixed interest rate investments
- Limit on fixed interest rate debt
- Limit on variable rate investments
- Limit on variable rate debt

6.5 The 8 indicators are shown below:

	<b>2018/19 Target</b>	<b>2019/20 Target</b>	<b>2020/21 Target</b>
<b>Debt - Borrowing rate achieved i.e. temporary borrowing (loans of less than 1 year)</b>	Less than 7 day LIBOR	Less than 7 day LIBOR	Less than 7 day LIBOR

	<b>2018/19 Target</b>	<b>2019/20 Target</b>	<b>2020/21 Target</b>
<b>Investment rate achieved</b>	Greater than 7 day LIBID	Greater than 7 day LIBID	Greater than 7 day LIBID

	<b>2018/19 Target</b>	<b>2019/20 Target</b>	<b>2020/21 Target</b>
<b>Average rate of Interest Paid on Council Debt (%)</b>	4.25%	4.25%	4.25%

	<b>2018/19 Target</b>	<b>2019/20 Target</b>	<b>2020/21 Target</b>
<b>Interest on Debt as a % of Gross Revenue Expenditure</b>	3.4%	3.4%	3.3%

	<b>2018/19 Target</b>	<b>2019/20 Target</b>	<b>2020/21 Target</b>
<b>Upper Limit on fixed interest rate Investments</b>	100%	100%	100%

	<b>2018/19 Target</b>	<b>2019/20 Target</b>	<b>2020/21 Target</b>
<b>Upper Limit on fixed interest rate debt</b>	100%	100%	100%

	<b>2018/19 Target</b>	<b>2019/20 Target</b>	<b>2020/21 Target</b>
<b>Upper Limit on variable interest rate investments</b>	75%	75%	75%

	<b>2018/19 Target</b>	<b>2019/20 Target</b>	<b>2020/21 Target</b>
<b>Upper Limit on variable interest rate debt</b>	40%	40%	40%

## 6.6 Treasury Management Advisers

The Council uses Link Asset Services as its treasury management consultants. The company provides a range of services which include:

- Technical support on treasury matters, capital finance issues and the drafting of Member reports;
- Economic and interest rate analysis;
- Debt rescheduling advice surrounding the existing portfolio;
- Credit ratings/market information service comprising the three main credit rating agencies.

Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice the final decision on treasury matters remains with the Council. This service is subject to regular review.

## 6.7 Member and Officer Training

The increased Member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for Members and officers.

This Council has addressed this important issue by:

- Member Training – Our treasury management advisers provided training to the Audit Committee and Budget Review Scrutiny Group prior to the consideration of this year's strategy and review of the Draft MTFS 2018-23. They also provided training to the Performance Scrutiny Committee to support their consideration of the mid-year report. The training needs will be regularly reviewed and updated as necessary in 2018/19.
- Staff Training – training needs for staff engaged in treasury management are addressed through the appraisal process. Training is provided both by the Council's treasury management advisers, other external providers and internally. In addition, the Council encourages staff engaged in treasury to undertake a professional accountancy qualification and ensures that the day-to-day trading is overseen by a professionally qualified accountant following the CIPFA Code of Practice.

## 7.0 Breakdown of Investment Categories with Maximum Amounts and Periods

The Chief Finance Officer, in accordance with TMP 1 (1) within the Council's Code of Practice, is authorised to invest funds surplus to immediate requirements with the following types of institutions subject to the minimum ratings produced by the three credit rating agencies Fitch, Moody's and Standard & Poor's. The Link Asset Services creditworthiness service is applied to determine a list of suitable counterparties available for investment. The minimum ratings applied by Link Asset Services in compiling their recommended counterparty list are set out in section 5.11 of the investment strategy.

All counterparty ratings are updated on a regular basis on the advice of the Council's Treasury Consultants. Notifications of rating changes are received as they happen.

## Investment Counterparty Limits

Institution	Minimum credit criteria/colour band	Maximum limit per group or institution £ million	Maximum maturity period
<b>SPECIFIED INVESTMENTS</b>			
UK Bank <sup>*1</sup>	Orange/Blue Red Green	£5 million	1 year 6 months 100 days
Non-UK Banks <sup>*1</sup> Sovereign rating AA	Orange Red Green	£5 million	1 year 6 months 100 days
Building Society <sup>*2</sup>	Orange Red Green	£5 million	1 year 6 months 100 days
Money Market Fund <sup>*3</sup>	Yellow	£5 million	Liquid
UK Government <sup>*4</sup>	Yellow	unlimited	6 months
UK Local Authority <sup>*4</sup>	Yellow	£2 million	1 year
<b>NON-SPECIFIED INVESTMENTS</b>			
UK Bank <sup>*1</sup>	Purple	£5 million	2 years
Non-UK Banks <sup>*1</sup> Sovereign rating AA	Purple	£3 million	2 years
Building Society <sup>*2</sup>	Purple Yellow	£2 million	2 years 5 years
UK Local Authority <sup>*4</sup>	Yellow	£2 million	5 years
Lincoln Credit Union	N/A	£10K	N/A
Council's own bank <sup>*5</sup> (operational cash limit in addition to the investment group limit)	N/A	£500K	Overnight

<sup>\*1</sup>Where the term 'Bank' is used, this denotes a UK or European Bank authorised to accept deposits through a bank account incorporated within the UK banking sector. The maximum amount indicated is the 'Group total' and covers the total amount that can be invested when spread over any number of subsidiaries within that group.

<sup>\*2</sup> Where the term Building Society is used, this denotes a UK Building Society.

<sup>\*3</sup> Money market funds are mutual funds that invest in short-term high quality debt instruments. The assets are actively managed within very specific guidelines to offer safety of principal, liquidity and competitive returns. Although money funds are regarded as short-term investments the rating agencies use a classification system based on long-term debt ratings.

<sup>\*4</sup> The UK Government (i.e. HM Treasury and its Executive Agency, the Debt Management Office) and Local Authorities, although not rated as such, are classified as having the equivalent of the highest possible credit rating.

<sup>\*5</sup>This limit covers normal treasury management activities but excludes any deposits received after money market trading has closed. It allows up to £500K of operational cash to be held in the Council's main bank account in addition to the group investment limit for the bank, if the bank is included on the Council's counterparty list.

## **Approved Investment Instruments**

In addition to determining the rating and limits of authorised counterparties TMP 4 “Approved instruments, methods and techniques” within the Council’s Code of Practice requires the Council to define the instruments that the Authority will use in undertaking its Treasury Management activities. In accordance with this, and the investment regime issued as part of the prudential capital finance system, the Instruments that the Chief Finance Officer will consider investing surplus funds in are shown below:

### **Instruments of Specified Investments \*<sub>1</sub>**

1. Gilt-edged securities issued by the United Kingdom Debt Management Office (UK DMO), an Executive Agency of HM Treasury.
2. Treasury Bills issued by the UK DMO.
3. Deposits with the Debt Management Office Debt Management Account Deposit Facility (DMADF).
4. Deposits with a Local Authority, Parish Council or Community Council.
5. Deposits with Banks and Building Societies (Including opening Business Accounts).
6. Certificates of deposit issued by Banks and Building societies.
7. Pooled investment vehicles (e.g. money market funds)

\*<sub>1</sub> To be defined as a Specified Investment the above instruments will have these features common to all:

- Be denominated in Sterling,
- Of not more than 1 year maturity,
- Of longer than 1 year maturity but the Council has the right to be repaid within 12 months,
- For instruments numbered 5 to 7 these must be with institutions of high credit quality.

### **Instruments of Non-Specified Investments \*<sub>2</sub>**

1. Deposits with Banks, Building Societies and their subsidiaries.
2. The Council’s own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.
3. Certificates of deposit issued by Banks and Building Societies.

\*<sub>2</sub> To be defined as a Non-Specified Investment the above instruments will have these features common to all:

- Denominated in Sterling,
- Of more than 1 year maturity,
- Of less than 1 year maturity with an institution that does not meet the basic security requirements under Specified Investments e.g. a deposit with a non-credit rated Bank or Building Society

## **Security, Liquidity and Yield benchmarking**

### **Benchmarking and Monitoring Security, Liquidity and Yield in the Investment Service**

A requirement for Treasury Management reporting is the consideration and approval of security and liquidity benchmarks.

These benchmarks are targets and so may be breached from time to time. Any breach will be reported, with supporting reasons in the Annual Treasury Report.

Yield – These benchmarks are widely used to assess investment performance. Local measures of yield benchmarks are:

- Investments – Internal returns above the 7 day LIBID rate

Security and liquidity benchmarks are already intrinsic to the approved treasury strategy through the counterparty selection criteria and some of the prudential indicators. Benchmarks for the cash type investments are set out below and these will form the basis of reporting in this area. In other investment categories appropriate benchmarks will be used where available.

Liquidity – This is defined as “having adequate, though not excessive cash resources, borrowing arrangements, overdrafts or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives” (CIPFA Treasury Management Code of Practice). In respect of this area the Council seeks to maintain:

- Bank overdraft - nil
- Liquid short term deposits of at least £5m available with a week’s notice.

The availability of liquidity and the term risk in the portfolio can be benchmarked by the monitoring of the Weighted Average Life (WAL) of the portfolio – a shorter WAL would generally embody less risk. In this respect the proposed benchmark to be used is:

- WAL benchmark is expected to be 0.45 years.
- Security of the investments – In context of benchmarking, assessing security is a much more subjective area to assess. Security is currently evidenced by the application of minimum credit quality criteria to investment counterparties, primarily through the use of credit ratings supplied by the three main credit rating agencies (Fitch, Moody’s and Standard and Poor’s). Whilst this approach embodies security considerations, benchmarking levels of risk is more problematic. One method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council’s investment strategy.

The Council’s expected security risk benchmark from its budgeted investment strategy is:

- 0.008% historic risk of default when compared to the whole portfolio which equates to a potential loss of £1,168 on an investment portfolio of £14.6m. In addition that the security benchmark for each individual year is:

	1 year	2 year	3 year	4 year	5 year
Maximum	0.30%	0.30%	0.30%	0.30%	0.30%

These benchmarks are embodied in the criteria for selecting cash investment counterparties and these will be monitored and reported to Members in the Investment Annual Report. As this data is collated, trends and analysis will be collected and reported

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**CITY OF LINCOLN  
TREASURY MANAGEMENT POLICY – CODE OF  
PRACTICE FOR TREASURY MANAGEMENT  
(March 2018)**

**KEY PRINCIPLES**

The City of Lincoln Council adopts the following three key principles identified within the *CIPFA Treasury Management in the Public Services Code of Practice* (The Code).

**Key Principle 1**

Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

**Key Principle 2**

The policies and practices should make clear that the effective management and control of risk are prime objectives of the treasury management activities and that responsibility for these lies clearly within the organisation. The appetite for risk should form part of the annual investment strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and *portfolio* liquidity when investing *treasury management* funds.

**Key Principle 3**

They should acknowledge that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

## **ADOPTED CLAUSES**

In accordance with *CIPFA's Treasury Management in the Public Services Code of Practice* (The Code), the City Of Lincoln Council adopts the following four clauses:

1. The City of Lincoln Council will create and maintain, as the cornerstones for effective treasury management:
  - a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
  - suitable treasury management practices (TMP's), setting out the manner in which it will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The content of the policy statement and TMP's will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the City of Lincoln Council materially deviating from the Code's key principles.

2. The Performance Scrutiny Committee of the City of Lincoln Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMP's. The Audit Committee of the City of Lincoln Council will receive on at least an annual basis a report of the treasury management strategy before approval by the Executive and full Council. Revised strategies may be prepared and presented to full Council for approval at any point during the year if deemed necessary e.g. there may be investment issues that full council should be made aware of.
3. The City of Lincoln Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Performance Scrutiny Committee, and for the execution and administration of treasury management decisions to the Chief Finance Officer, who will act in accordance with the organisation's policy statement and TMPs.
4. The City of Lincoln Council nominates the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

## **TREASURY MANAGEMENT POLICY STATEMENT**

1. The City of Lincoln Council defines its treasury management activities as:  
  
*“The management of the organisation’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.”*
2. The City of Lincoln Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organization, and any financial instruments entered into to manage these risks.
3. The City of Lincoln Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

## **TREASURY MANAGEMENT PRACTICES**

### **TREASURY MANAGEMENT PRACTICE 1**

#### **RISK MANAGEMENT**

##### **General statement**

The City of Lincoln Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly it will ensure that robust due diligence procedures cover all external investments. The Chief Finance Officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the City of Lincoln Council's objectives in this respect, all in accordance with the procedures set out in *TMP6 Reporting requirements and management information arrangements*. In respect of each of the following risks, the arrangements, which seek to ensure compliance with these objectives, are set out in the schedule to this document.

##### **[1] Credit and counterparty risk management**

Credit and counter-party risk is *The risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital project or partnership financing (not part of the Treasury Management function), particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources"*

The City of Lincoln Council will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited and will limit its investment activities to the instruments, methods and techniques referred to in *TMP4 Approved instruments, methods and techniques* and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow or with whom it may enter into other financing arrangements.

In preparing the annual strategy, the City of Lincoln Council will:

- Produce a list of approved investment instruments for both Specified and Non-specified Investments,
- Identify criteria for inclusion on the Council's Counterparty List,

## Appendix 4

- Determine the minimum credit ratings required for both Specified and Non-Specified Investments and the maximum amounts and periods to be invested in Specified and Non-specified Investments,

### **[2] Liquidity risk management**

*This is “The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisations business/service objectives will be thereby compromised.”*

The City of Lincoln Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.

The City of Lincoln Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

The Treasury Management section shall seek to minimise the balance held in the Council’s main bank accounts at the close of each working day at £500,000. Borrowing or lending shall be arranged in order to achieve this aim.

### **[3] Interest rate risk management**

*This is “The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation’s finances, against which the organisation has failed to protect itself adequately.”*

The City of Lincoln Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with *TMP6 Reporting requirements and management information arrangements*.

It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be subject to the consideration and, if required, approval of any policy or budgetary implications.

### **[4] Exchange rate risk management**

*This is “The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation’s finances, against which the organisation has failed to protect itself adequately.”*

City of Lincoln Council will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

**[5] Inflation risk management**

*This is “The chance that the cash flows from an investment won’t be worth as much in the future because of changes in purchasing power due to inflation,”*

The City of Lincoln Council will keep under review the sensitivity of its treasury assets and liabilities to inflation and will seek to manage the risk accordingly in the context of the whole organisation’s inflation exposures.

**[6] Refinancing risk management**

*“The risk that maturing borrowings, capital, project or partnership financing cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancings, both capital and current (revenue), and / or that the terms are inconsistent with prevailing market conditions at the time.”*

The City of Lincoln Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the City of Lincoln Council as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over-reliance on any one source of funding if this might jeopardise achievement of the above.

**Debt/Other Capital Financing, Maturity Profiling, Policies and Practices**

The Council will establish through its Prudential and Treasury Indicators the amount of debt maturing in any year/period.

Any debt rescheduling will be considered when the difference between the refinancing rate and the redemption rate is most advantageous and the situation will be continually monitored in order to take advantage of any perceived anomalies in the yield curve. The reasons for any rescheduling to take place will include:

- a) the generation of cash savings at minimum risk;
- b) to reduce the average interest rate;
- c) to amend the maturity profile and /or the balance of volatility of the debt portfolio.

## Appendix 4

Rescheduling will be reported to the Council at the meeting immediately following its action / in the annual Review Report.

### **Projected Capital Investment Requirements**

The responsible officer will prepare a five year plan for capital expenditure for the Council. The capital plan will be used to prepare a five year revenue budget for all forms of financing charges.

The definition of capital expenditure and long term liabilities used in the Code will follow recommended accounting practice as per the Code of Practice on Local Authority Accounting.

### **Policy Concerning Limits on Affordability and Revenue Consequences of Capital Financing**

In considering the affordability of its capital plans, the Council will consider all the resources currently available/estimated for the future together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the two following years and the impact these will have on council tax and (in the case of authorities with an HRA), housing rent levels. It will also take into account affordability in the longer term beyond this three year period.

- Financial Conduct Authority's Code of Market Conduct
- The Council's Standing Orders relating to Contracts
- The Council's Financial Regulations
- The Council's Scheme of Delegated Functions

### **[7] Legal and regulatory risk management**

This is *"The risk that the organisation itself, or a third party with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly."*

The City of Lincoln Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] *Credit and counterparty risk management*, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the City of Lincoln Council, particularly with regard to duty of care and fees charged.

The City of Lincoln Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is

## Appendix 4

reasonably able to do so, will seek to minimise the risk of these impacting adversely on the City of Lincoln Council.

The treasury management activities of the Council shall comply fully with legal statute, guidance, Codes of Practice and the regulations of the Council.

Procedures for Evidencing the Council's Powers/Authorities to Counterparties  
The Council's powers to borrow and invest are contained in legislation.

In addition, it will make available on request the following: -

- a) the scheme of delegation of treasury management activities which is contained in Financial Procedure Rules
- b) the document which sets out which officers are the authorised signatories.

Required Information on Counterparties

Lending shall only be made to counterparties on the Approved Lending list. This list has been compiled using advice from the Council's treasury advisers based upon credit ratings supplied by Fitch, Moodys and Standard and Poors and CDS prices.

Statement on the Council's Political Risks and Management of Same

The responsible officer shall take appropriate action with the Council, the Chief Executive and the Leader of the Council to respond to and manage appropriately political risks such as change of majority group, leadership in the Council, change of Government etc.

Monitoring Officer

The monitoring officer is the City Solicitor; the duty of this officer is to ensure that the treasury management activities of the Council are lawful.

Chief Financial Officer

The Chief Financial Officer is the Chief Finance Officer, the duty of this officer is to ensure that the financial affairs of the Council are conducted in a prudent manner and to make a report to the Council if she has concerns as to the financial prudence of its actions or its expected financial position.

### **[8] Fraud, error and corruption, and contingency management**

*"The risk that an organisation fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its TM dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk."*

The City of Lincoln Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ



## Appendix 4

suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

The Council will therefore:-

- a. seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal check which minimises such risks.
- b. Fully document all its treasury management activities so that there can be no possible confusion as to what proper procedures are.
- c. Staff will not be allowed to take up treasury management activities until they have had proper training in procedures and are then subject to an adequate and appropriate level of supervision.
- d. Records will be maintained of all treasury management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out.

**[9] Price risk management**

*“The risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated TM policies and objectives are compromised, against which effects it has failed to protect itself adequately.”*

The City of Lincoln Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

**TREASURY MANAGEMENT PRACTICE 2**

**PERFORMANCE MEASUREMENT**

The City of Lincoln Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the City of Lincoln Council's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the schedule to this document.

**TREASURY MANAGEMENT PRACTICE 3**

**DECISION-MAKING AND ANALYSIS**

The City of Lincoln Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the schedule to this document.

**TREASURY MANAGEMENT PRACTICE 4**

**APPROVED INSTRUMENTS, METHODS AND TECHNIQUES**

The City of Lincoln Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in TMP1 *Risk management*.

City of Lincoln Council has reviewed its classification with financial institutions under MIFID II and has set out in the schedule to this document those organisations with which it is registered as a professional client and those with which it has an application outstanding to register as a professional client.

**TREASURY MANAGEMENT PRACTICE 5**

**ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES,  
AND DEALING ARRANGEMENTS**

The City of Lincoln Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling those policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the City of Lincoln Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the Chief Finance Officer will ensure that the reasons are properly reported in accordance with *TMP6 Reporting requirements and management information arrangements*, and the implications properly considered and evaluated.

The Chief Finance Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Chief Finance Officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule to this document.

The Chief Finance Officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule to this document.

The delegations to the Chief Finance Officer in respect of treasury management are set out in the schedule to this document. The Chief Finance Officer will fulfil all such responsibilities in accordance with the City of Lincoln Council's policy statement and TMP's.

**TREASURY MANAGEMENT PRACTICE 6**

**REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION  
ARRANGEMENTS**

The City of Lincoln Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum, the full Council will receive:

- an annual report on the strategy and plan to be pursued in the coming year. Revised strategies may be presented to full Council at any point in the year if deemed necessary.
- a mid-year review.
- an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with its treasury management policy statement and TMP's.

The Performance Scrutiny Committee will receive regular monitoring reports on treasury management activities and risks.

The Audit Committee will have responsibility for the scrutiny of treasury management policies and practices. It will receive an annual report on the treasury management strategy before approval by the Executive and full Council.

The Executive will receive the Treasury Management Strategy prior to submission to Full Council, regular monitoring reports and an annual report on the Treasury Management function, on the effects of the decisions taken and the transactions executed in the past year.

The City of Lincoln Council will report the treasury management indicators as detailed in the local authority guidance notes.

The present arrangements and the form of these reports are detailed in the schedule to this document.

**TREASURY MANAGEMENT PRACTICE 7**

**BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS**

The Chief Finance Officer will prepare, and the Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will as a minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 *Risk management*, TMP2 *Performance measurement*, and TMP4 *Approved instruments, methods and techniques*. The form, which the City of Lincoln Council's budget will take, is set out in the schedule to this document. The Chief Finance Officer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 *Reporting requirements and management information arrangements*.

The City of Lincoln Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being. The present form of the City of Lincoln Council's accounts is set out in the schedule to this document.

The City of Lincoln Council will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfillment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices. The information made available under present arrangements is detailed in the schedule to this document.



**TREASURY MANAGEMENT PRACTICE 8**

**CASH AND CASH FLOW MANAGEMENT**

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the City of Lincoln Council will be under the control of the Chief Finance Officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Chief Finance Officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1[2] *liquidity risk management*. The present arrangements for preparing cash flow projections, and their form, are set out in the schedule to this document.

**TREASURY MANAGEMENT PRACTICE 9**

**MONEY LAUNDERING**

The City of Lincoln Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in treasury activities and accepting payments are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the schedule to this document.

Money Laundering is defined as *“a process where the identity of the proceeds of criminal proceedings (dirty money) is changed through apparently legitimate transactions so that the money appears to originate from a legitimate source”*

**TREASURY MANAGEMENT PRACTICE 10**

**STAFF TRAINING AND QUALIFICATIONS**

The City of Lincoln Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Chief Finance Officer will recommend and implement the necessary arrangements.

The Chief Finance Officer will ensure that the council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

The present arrangements are detailed in the schedule to this document.

**TREASURY MANAGEMENT PRACTICE 11**

**USE OF EXTERNAL SERVICE PROVIDERS**

The City of Lincoln Council recognises that the responsibility for treasury management decisions remains with the organisation at all times. It recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. It will also ensure that where any external investment manager is used that they are contractually required to comply with the Council's Strategies. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over-reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Chief Finance Officer, and details of the current arrangements are set out in the schedule to this document.

**TREASURY MANAGEMENT PRACTICE 12**

**CORPORATE GOVERNANCE**

The City of Lincoln Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The City of Lincoln Council has adopted and has implemented the key principles of the Code. This, together with the other arrangements detailed in the schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the Chief Finance Officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

**INVESTMENTS THAT ARE NOT PART OF TREASURY MANAGEMENT  
ACTIVITY**

**MANAGEMENT PRACTICES FOR NON-TREASURY INVESTMENTS**

City of Lincoln Council recognizes that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcome, investments in subsidiaries, and investment property portfolios.

City of Lincoln Council will ensure that all its investments are covered in the capital strategy, investment strategy or equivalent, and will set out, where relevant, its risk appetite and specific policies and arrangements for non-treasury investments. It will be recognized that the risk appetite for these activities may differ from that for treasury management.

The City of Lincoln Council will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and its risk exposure

## TREASURY MANAGEMENT PRACTICES – SCHEDULES

This section contains the schedules, which set out the details of how the Treasury Management Practices (TMP's) are put into effect by City Of Lincoln Council.

### TREASURY MANAGEMENT PRACTICE 1 RISK MANAGEMENT

#### [1] Credit and counterparty risk management (reviewed and updated annually as part of the Council's Treasury Management Strategy)

- **Debt Management Office** – The council to use at the discretion of the Chief Finance Officer.
- **Criteria to be used for creating/managing approved counterparty lists/limits** – the type of institutions that are included on the Council's counterparty list are based on the Council's ethical policy i.e. non-European banks are not included, and by reference to the CLG investment guidance issued in March 2010. The Council uses the creditworthiness service provided by its treasury management advisors, Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies, Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with overlays of credit watches and credit outlooks from credit rating agencies; Credit Default Swaps (CDS) spreads to give early warning of likely changes in credit ratings; and sovereign ratings to select counterparties from creditworthy countries. The criteria used for the counterparty list are based on the Council's attitude to investment risk and advice from the Council's treasury management consultants. Typically, the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalent) of F1 (highest credit quality) and a long-term rating A- (high credit quality). There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but the counterparty may still be used if consideration of the whole range of ratings available and other topical market information supports their use.

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

## Appendix 4

- Yellow 5 years
- Purple 2 years
- Blue 1 year (only applies to part-government owned UK banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour Not to be used

The current minimum criteria for inclusion of counterparties on the list using the colour coding are as shown below, along with the allowable time and money limits.

### Investment Counterparty Limits

Institution	Minimum credit criteria/colour band	Maximum limit per group or institution £ million	Maximum maturity period
<b>SPECIFIED INVESTMENTS</b>			
UK Bank * <sup>1</sup>	Orange/Blue Red Green	£5 million	Up to 1 year Up to 6 months Up to 100 days
Non-UK Banks* <sup>1</sup> Sovereign rating AA	Orange Red Green	£5 million	Up to 1 year Up to 6 months Up to 100 days
Building Society* <sup>2</sup>	Orange Red Green	£5 million	Up to 1 year Up to 6 months Up to 100 days
Money Market Fund* <sup>3</sup>	AAA	£5 million	Liquid
UK Government* <sup>4</sup>	Yellow	unlimited	Up to 6 months
UK Local Authority* <sup>4</sup>	Yellow	£2 million	Up to 1 year
<b>UNSPECIFIED INVESTMENTS</b>			
UK Bank* <sup>1</sup>	Purple	£5 million	Up to 2 years
Non-UK Banks* <sup>1</sup> Sovereign rating AA	Purple	£3 million	Up to 2 years
Building Society* <sup>2</sup>	Purple Yellow	£2 million	Up to 2 years Up to 5 years
UK Local Authority* <sup>4</sup>	N/A	£2 million	Up to 2 years
Lincoln Credit Union	N/A	£10K	N/A
Council's own bank* <sup>5</sup> (operational cash limit in addition to the investment group limit)	N/A	£500K	Overnight

\*<sup>1</sup> Where the term 'Bank' is used this denotes a UK or European Bank authorised to accept deposits through a bank account incorporated within the UK banking sector. The maximum amount indicated is the 'Group total' and covers the total amount that can be invested when spread over any number of subsidiaries within that group.

\*<sup>2</sup> Where the term Building Society is used this denotes a UK Building Society.

\*<sup>3</sup> Money market funds are mutual funds that invest in short-term high quality debt instruments. The assets are actively managed within very specific guidelines to offer safety of principal, liquidity and competitive returns. Although money funds are regarded as short-term investments the rating agencies use a classification system based on long-term debt ratings.



## Appendix 4

\*4 The UK Government (i.e. HM Treasury and its Executive Agency the Debt Management Office) and Local Authorities, although not rated as such, are classified as having the equivalent of the highest possible credit rating.

\*5 This limit covers normal treasury management activities but excludes any deposits received after money market trading has closed. It allows up to £500K operational cash to be held in the Council's main bank account in addition to the group investment limit for the bank, if the bank is included on the Council's counterparty list.

- **Approved methodology for changing limits and adding/removing counterparties** - The Council's treasury management consultants compile a full list of counterparties, with their appropriate colour coding, designated as the "Credit list". This list is issued to the Council and renewed on a weekly basis. Notifications of any changes are received as they occur. The latest position is also available on Link's Passport system. The credit rating position is updated on this system as soon as any changes are made to credit ratings. The latest position will be checked and is used as a source of reference before any investments are undertaken. If the change to a counterparty is a downgrade and no longer meets the Council's minimum criteria then its further use as a new investment will be withdrawn immediately.
- **Full individual listings of counterparties and counterparty limits** – the minimum creditworthiness (indicated by the colour coding) for inclusion of a counterparty is shown in the table above. Investments are categorised as specified and non-specified (in line with the investment guidelines issued in March 2010) and the maximum amounts and periods to be invested within the two categories are shown in the table above (based on the current Treasury Management Strategy).
- **Details of credit rating agencies' services** – The creditworthiness service provided by Link Asset Services and used by the Council uses the three credit rating agencies, Fitch, Standard and Poor's and Moody's, which are recognised worldwide. Each of them is established in most countries and has a universal credit rating scale. These three leading international rating agencies have established a universal and open methodology of drawing up rating reports. Activities of the rating agency are public and all necessary information of rating decisions is available on the Internet.
- **Country and sector considerations** - Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part the country selection will be chosen by the credit rating of the Sovereign state. In addition:
  - No investments to be placed in non-EU banks.
  - No more than 50% will be placed with any non-UK country that is within the EU.
- **Use of additional information other than credit ratings** - Additional requirements under the Code of Practice now require the Council to supplement credit rating information. The creditworthiness service provided by Capita Asset Services now employed by the Council fully meets this requirement as the sophisticated modelling approach combines credit ratings, credit watches and credit outlooks and then overlays CDS spreads to

produce a final creditworthiness score. However, sole reliance is not placed on the use of this external service. In addition, the Council will also use market data and market information, information on government support for banks and the credit ratings of that supporting government.

## [2] Liquidity risk management

- **Minimum cash balances and short term investments** – the Council has a policy of a minimum of £3m to be deposited in instruments that can be accessed within a week but does not have set amounts for minimum cash balances to cover shortages in cash flow. A twelve month cash flow forecast model is used as a tool to forecast cash inflows and outflows, and investments are made for specific periods, which take into account when money is required to fund cash outflows, thereby keeping short term borrowing to an absolute minimum. However, short-term borrowing will be incurred, if it is deemed prudent to take advantage of good investment rates.
- **Standby facilities** – these relate to any tools that the Council has to manage its liquidity and as such are covered by short-term borrowing facilities (see below). In addition the Council also maintains several Money Markets Funds and five Deposit accounts. These are exceptionally liquid investment instruments that offer same day access to any funds placed therein. The Council does not have a Policy of maintaining a minimum balance within any of these funds but in reality these funds are used as an alternative to overnight and other short-term periods of investment.
- **Bank overdraft arrangements** – the Council does not currently have an overdraft facility with its bankers (currently Lloyds Bank). Accurate cash flow forecasting and immediate access to funds in Money Market Funds mean that under normal circumstances an overdraft facility is not required. On the very rare occasions that the bank balance may be overdrawn the fees charged are considerably less than the annual overdraft fee. The need for an overdraft facility is reviewed annually in August 30<sup>th</sup> and forms part of the ‘Overdraft and other Facilities’ agreement with the Bank.
- **Short term borrowing facilities** – When the Council has a need to borrow short-term (up to 364 days), Money Market Brokers are contacted (currently BGC or King Shaxson) to obtain the necessary funds. The broker will quote a rate that is based on current market conditions. A fee is payable to the broker for this service, typically between 3 and 10 basis points.
- **Insurance/guarantee facilities** – the Council is insured in respect of loss of money or other property belonging to it or in its trust or custody under a Fidelity Guarantee with Travelers. This only relates to loss occurring as a direct result of any act of fraud or dishonesty on the part of an employee (as specified under the Policy Schedule). This Policy is renewable annually in April. The full terms and conditions of the Fidelity Guarantee and Policy

## Appendix 4

schedule including the designated Officers, the employees and sums for which they are covered are available from the Financial Services Manager.

- **Other contingency arrangements** – in line with CLG investment guidance (March 2004), the Council has set maximum amounts and periods for which funds may prudently be committed to ensure it has sufficient liquidity in its investments. The limits are shown below in section 5 Credit and counterparty risk management (limits are based on the current Treasury Management Strategy):

In addition the Council has adopted the following Prudential Indicator to limit the amount that can be invested over 364 days as shown below:

Prudential Indicator No.16	2018/19 £m	2019/20 £m	2020/21 £m
Maximum principal sums invested for longer than 364 days	5	5	5

### [3] Interest rate risk management

- **Approved interest rate exposure limits** – in order to minimise the risk of wide fluctuations in interest rates the Council sets annually upper limits on variable and fixed interest rate exposure (based upon the debt position net of investments), the current limits are as follows:

	2018/19 Upper £m	2019/20 Upper £m	2020/21 Upper £m
Upper Limits on variable interest rate exposure	34.1	34.1	33.8

	2018/19 Upper £m	2019/20 Upper £m	2020/21 Upper £m
Upper Limits on fixed interest rate exposure	81.7	80.1	79.7

These limits are based on the following limits on borrowing and investment exposures:

- Upper limit on fixed rate investments – 100%
- Upper limit on variable rate investments – 75%
- Upper limit on fixed rate borrowing – 100%
- Upper limit on variable rate borrowing – 40%

The indicators above are set as part of the Council's annual Prudential Indicators and Treasury Management Strategy.

## Appendix 4

- **Trigger points and other guidelines for managing changes to interest rate levels** – the Council’s current Treasury Management consultants provide regular interest rate forecasts and economic advice, which assists the Council to manage changes in interest rate levels. This forecasting and economic advice includes:
  - Regular forecasts of PWLB rates and imminent changes are given to the Council, with particular regard to the agreed underlying strategy. Continuous updates on market conditions and trends affected by economic, fiscal and political factors are also provided
  - A weekly and monthly newsletter
  - A quarterly ‘Economic and Interest Rate Forecast’ bulletin
  
- **Minimum/maximum proportions of variable rate debt/interest** – the Council has set the maximum proportion of variable interest rate exposure (based upon the debt position net of investments) as shown above.

The Council also sets a minimum level for the proportions of variable rate debt and interest (detailed above). These limits feed into the limit on the net debt position, which is based on estimated levels of debt and investments.

### [4] Exchange rate risk management

- The Council only invests and borrows funds in sterling; thereby avoiding any risk associated with fluctuations in exchange rates.

### [5] Refinancing risk management

- **Debt/other capital financing maturity profiling, policies and practices** – as part of the annual Prudential Indicators and Treasury Management Strategy the gross limits are set to reduce the Council’s exposure to large fixed rate sums falling due for refinancing. The current limits are as follows:

Maturity Structure of fixed borrowing	2018/19		2019/20		2020/21	
	Lower	Upper	Lower	Upper	Lower	Upper
Under 12 months	0%	40%	0%	40%	0%	40%
12 months to 2 years	0%	40%	0%	40%	0%	40%
2 years to 5 years	0%	60%	0%	60%	0%	60%
5 years to 10 years	0%	80%	0%	80%	0%	80%
10 years and above	10%	100%	10%	100%	10%	100%

The Council’s treasury management consultants are continually reviewing the Council’s debt portfolio in terms of seeking opportunities for debt restructuring to ascertain the most beneficial loans in terms of savings and spreading the maturity profiles.

- **Projected Capital Investment Decisions** – The Council has a 5-year Financial Strategy that is updated annually. The strategy incorporates the projected capital programme together with the associated funding i.e. grants, capital receipts, Direct Revenue Financing (DRF) and borrowing. Any new capital schemes are appraised in terms of funding; if any unsupported borrowing is required this is determined in terms of affordability and the Council assesses the loan type, loan period and interest rate with reference to the current strategy and age debt profile of the current portfolio.

#### **[6] Legal and regulatory risk management**

- **Relevant statutes and regulations** – in all the treasury management activities, the City Council follows the Local Government Act 2003. Chapter 1 of the Act sets out the statutory powers of local authorities; to borrow, control borrowing, duty to determine affordable borrowing limit, imposition of borrowing limit, temporary borrowing, protection of lenders and power to invest. In addition the City Council follows the regulations as set out below:
  - CIPFA Code of Practice on Local Authority Accounting (“The Code”)
  - CIPFA Code of Practice on Treasury Management
  - Prudential Code for Capital Finance in Local Authorities (CIPFA)
  - Local Government Investment Guidance (ODPM/DLGC)

#### **[7] Fraud, error and corruption, and contingency management**

- **Systems and procedures to be followed** – in order to minimise the possibility of fraud, error or corruption, procedures for carrying out and monitoring treasury management activities involve rigorous requirements for audit, checking, control and reporting. These requirements are detailed in the relevant schedules i.e. TMP5 – Organisation, Clarity and Segregation of Duties and Dealing Arrangements. In the event of any fraud or corruption this will be immediately reported to either the Financial Services Manager or Chief Finance Officer who will determine the appropriate course of action. Similarly, any errors, which result in the breach of procedures set down in these schedules, will be reported either to the Financial Services Manager or Chief Finance Officer.
- **Emergency and contingency planning arrangements** – Procedures to be implemented in the event of a disaster will be contained in the Council’s I.T. Disaster Recovery Plan.
- **Insurance cover details** – see TMP 1[2] for details.

**[8] Market risk management**

- ***Approved procedures and limits for controlling exposure to investments whose capital value may fluctuate*** - the Council does not expose itself to this risk as it does not use investments whose capital value may fluctuate; in addition the Council does not use Fund Managers who may use investments whose capital value may fluctuate.

**TREASURY MANAGEMENT PRACTICE 2**  
**PERFORMANCE MEASUREMENT**

- ***Methodology to be applied for evaluating the impact of treasury management decisions*** – to assess the adequacy of the treasury management function, the Council has set 8 local indicators. These indicators are as follows:
  - **Debt** (Borrowing rate achieved against average 7 day LIBOR) - target; less than 7 day LIBOR.
  - **Investments** (Investment rate achieved against average 7 day LIBID) – target; greater than 7 day LIBID.
  - Upper limit on fixed rate investments – 100%
  - Upper limit on variable rate investments – 75%
  - Upper limit on fixed rate borrowing – 100%
  - Upper limit on variable rate borrowing – 40%
  - **Average rate of interest paid on the Councils Debt during the year** (this will evaluate performance in managing the debt portfolio to release revenue savings) – target; 4.25%
  - **The amount of interest on debt as a percentage of gross revenue expenditure** target; 3.4%

The local indicators are subject to scrutiny through the mid year treasury management reports submitted to the Council's Performance Scrutiny Committee.

In addition the Council sets budgetary targets for investment interest receivable (net of short-term borrowing interest) and borrowing interest payable, both on the General Fund and Housing Revenue Accounts. These budget targets are included in the Council's 5-year Financial Strategy and are monitored on a regular basis to ensure there are no material variances. In the event of material variances, these would be reported to the Council's Performance Scrutiny Committee and Executive as part of the quarterly budget monitoring reports and reported to the Chief Finance Officer and the Financial Services Manager through monthly summary performance reports.

- ***Policy concerning methods for testing value for money in treasury management***
  - The Council appoints an external treasury management consultant to advise on treasury management activities and in order to obtain expert independent advice on a range of treasury management issues e.g. interest rate forecasts, investment instruments, investment and borrowing strategy, credit ratings. Link Asset Services are to be reappointed for a 3-year period (with an option to extend the contract for a further period of one year) following the expiry of the previous agreement plus extensions on 28th February 2018. This reappointment was made using a framework agreement established by ESPO by competitive tender, thus ensuring value for money was obtained. The contract will be renewed in February 2021 following further use of a framework.
  - Banking Services are also re-tendered or renegotiated periodically to ensure that the level of prices reflect efficiency savings achieved either by the Council or the supplier. The current banking contract is for three and a half years with the option of two further extensions of two years each i.e. a maximum of seven and a half years in total. The option to extend has been utilised and the current arrangement will end in September 2021.
  - The Council sometimes uses money broking services in order to make deposits or to borrow. Charges for all services are established prior to using them and the use of brokers takes account of both the prices and quality of services.



**TREASURY MANAGEMENT PRACTICE 3**  
**DECISION-MAKING AND ANALYSIS**

Detailed records are maintained of all borrowings and investments made by the Council. In respect of every decision concerning changes to existing patterns of lending or borrowing made, the Council will:

- above all be clear about the nature and extent of the risks to which the organisation may become exposed
- be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained
- be content that the documentation is adequate both to deliver the Council's objectives and protect the Council's interests, and to deliver good housekeeping
- ensure that third parties are judged satisfactory in the context of the Council's creditworthiness policies and that limits have not been exceeded
- be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive

With the need to realise significant General Fund revenue savings to ensure that the budget is balanced and sustainable in the long term and the need to achieve efficiency savings in the Housing Revenue Account, the main theme of the borrowing and debt strategy is to reduce the individual average interest rates paid by each fund. The reduction in interest rates will be undertaken through debt restructuring opportunities and taking new borrowing with lower interest rates than the rates that have been projected in the budget estimates. However, restructuring that increases the interest rate payable may be considered if it offers the Council the opportunity to take a discount, as part of the rescheduling exercise. In respect of borrowing decisions, the Council will:

- Manage the Council's debt maturity profile, considering the optimum period leaving no one future year with a high level of repayments that might cause problems in re-borrowing in light of the maturity profile of existing loans and prevailing market conditions.
- Effect funding at the cheapest cost commensurate with future risk.
- Forecast average future interest rates and borrow accordingly i.e. short term/variable when rates are 'high', long term/fixed when rates are 'low'.

## Appendix 4

- Monitor and review the level of variable rate loans in order to take greater advantage of interest rate movements. Consider whether fixed or variable interest rates offer best value, whilst ensuring that variable and fixed rates do not exceed the Prudential Indicator limits as shown in TMP1 schedule [2] above.
- Proactively reschedule debt in order to take advantage of potential savings as interest rates change. Each rescheduling exercise will be considered in terms of the effect of premiums and discounts on the General Fund and the Housing Revenue Account.
- Manage the day-to-day cash flow of the Authority in order to, where possible, negate the need for short-term borrowing. However, short-term borrowing will be incurred, if it is deemed prudent to take advantage of good investment rates. Before proceeding to borrow the Council will consider the optimum period and prevailing market conditions and compare interest rates to bank overdraft rates to ensure best value.
- Consider the alternative financial institutions and borrowing products that the Council can use.
- Ensure total borrowing does not exceed the Authorised Limit set for that financial year, approved as part of the Prudential Indicators and Treasury Management Strategy.

The main theme of the investment strategy is to ensure the security of the sums invested as a first priority and secondly to ensure that the Council has access to sufficient liquid funds. Then thirdly to maximise interest from investments, within the constraints imposed by having regard to security and liquidity, in order to contribute towards the General Fund and Housing Revenue Account savings targets as detailed above. The increase of investment income will be sought through actively undertaking investments with higher interest rates than the rates that have been projected in the budget estimates. In respect of investment decisions, the Council will:

- consider the optimum period, in light of cash flow availability and prevailing market conditions
- consider the alternative investment products and techniques available, especially the implications of using any which may expose the Council to changes in the value of its capital, although the Council does not use such products
- ensure investments are included in the Councils 'approved investment instruments' (see TMP4 below)
- consider financial institutions and ensure they meet the minimum requirements for inclusion in the Council's counterparty list (see TMP1 schedule [1] above)

## Appendix 4

- ensure that the counterparty individual/group investment limits are not exceeded (see TMP1 [1] above)
- ensure the non-specified investment limit is not exceeded current limit is 75% of the total of investments, as approved in the Prudential Indicators and Treasury Management Strategy
- ensure that investments over 364 days do not exceed the limit of £5m (see TMP1 schedule [1] above). This includes forward deals.

A meeting will be held for the Treasury Management officer to advise the Financial Services Manager when it is necessary to make investment and borrowing decisions where the length of the deal to be brokered has a maturity period of over 3 months, and as necessary when other issues arise. A briefing note is prepared giving details of the proposed deal and supporting information. This is discussed at the meeting. It will be signed off by the Financial Services Manager and then the Chief Finance Officer (or Assistant Director, Strategic Development in her absence) before the investment is made or any borrowing is taken.

**TREASURY MANAGEMENT PRACTICE 4**  
**APPROVED INSTRUMENTS, METHODS AND TECHNIQUES**

- ***Listings and individual limits for the use of approved instruments*** – In accordance the Council’s current treasury management strategy, the instruments (split between specified and non-specified investments) that the Council will consider investing surplus funds in are shown below (individual limits are not set for approved investment instruments):

**Instruments of Specified Investments \*1**

1. Gilt-edged securities issued by the United Kingdom Debt Management Office (UK DMO), an Executive Agency of HM Treasury.
2. Treasury Bills issued by the UK DMO.
3. Deposits with the Debt Management Office Debt Management Account Deposit Facility (DMADF).
4. Deposits with a Local Authority, Parish Council or Community Council.
5. Deposits with Banks and Building Societies (Including opening Business Accounts).
6. Certificates of deposit issued by Banks and Building societies.
7. Investment Schemes i.e. a Money Market Fund.

\*1 To be defined as a Specified Investment the above instruments will have these features common to all:

- Be denominated in Sterling,
- Of not more than 1 year maturity,
- Of longer than 1 year maturity but the Council has the right to be repaid within 12 months,
- For instruments numbered 5 to 7 these must be with institutions that have been awarded a high credit rating by a Rating Agency (i.e. see Appendix 4).

**Instruments of Non-Specified Investments \*2**

1. Deposits with Banks, Building Societies and their subsidiaries.

\*2 To be defined as a Non-Specified Investment the above instruments will have these features common to all:

- Denominated in Sterling,
- Of more than 1-year maturity,
- Of less than 1-year maturity with an institution that does not meet the basic security requirements under Specified Investments e.g. a deposit with a non-credit rated Bank or Building Society.

## Appendix 4

- **Approved method/techniques and sources of raising capital finance**  
– capital finance will only be raised in accordance with the Local Government Act 2003 and within this limit the Council has a number of approved methods and sources of raising capital finance. These could include:

	Fixed	Variable
PWLB	●	●
Market Loans (long-term)	●	●
Local Bonds	●	
Negotiable Bonds	●	●
Finance Leases	●	●

Other methods of financing include Government and European Capital Grants, Lottery monies, Private Finance Initiative (PFI) (now PF2), Public-Private Partnerships (PPP), operating leases and other capital contributions from relevant partners and stakeholders.

All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Chief Finance Officer has delegated powers, in accordance with the Officers' Scheme of Delegation within the Constitution and the Treasury Management Strategy, to borrow using the most appropriate sources.

- **MIFID II** – the council has opted for professional status for the purposes of MIFID II. The council is registered as a professional client with:

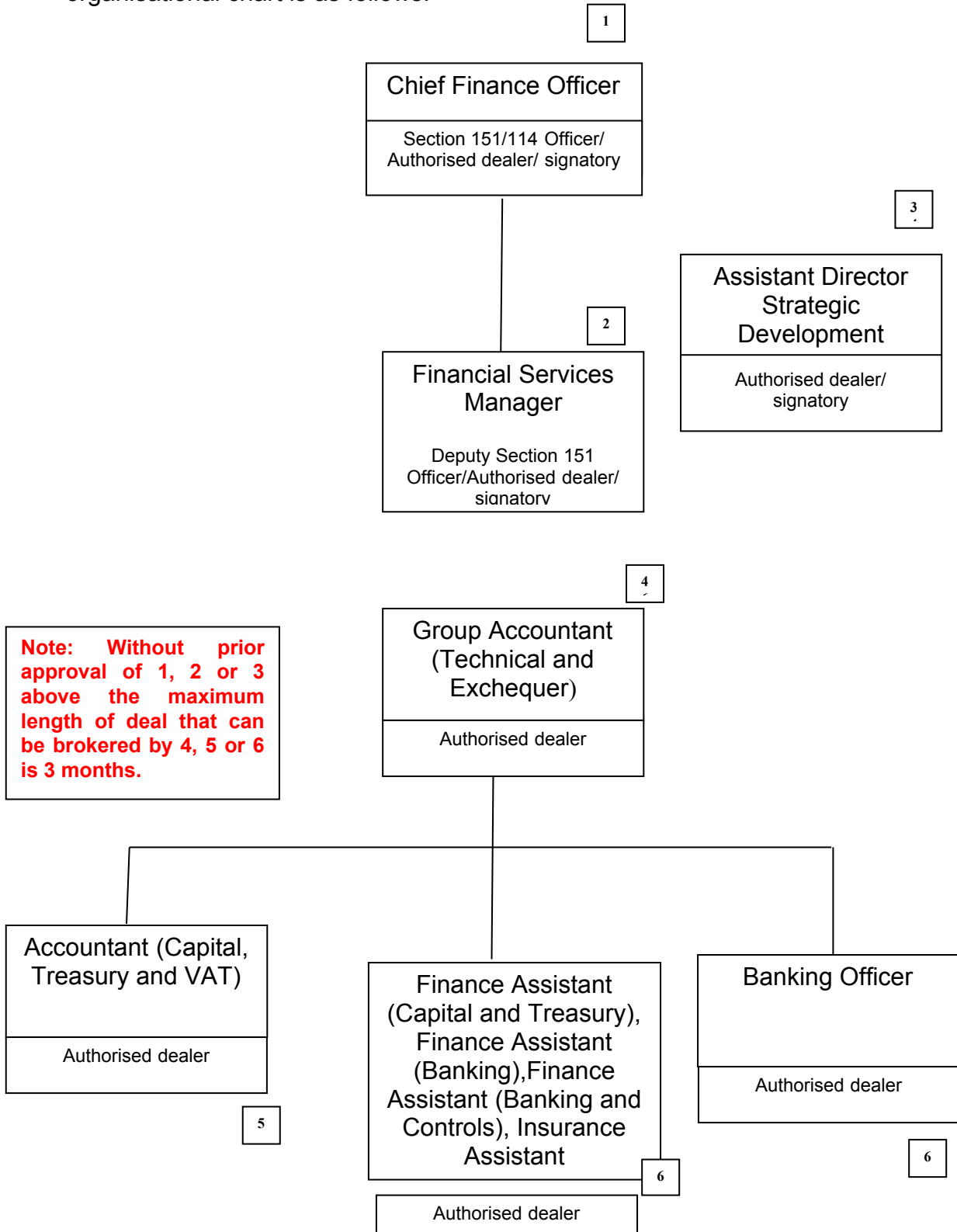
Link Asset Services  
King and Shaxson  
BGC  
Institutional Cash Distributors Ltd

**TREASURY MANAGEMENT PRACTICE 5**  
**ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES,**  
**AND DEALING ARRANGEMENTS**

- ***Limits to responsibilities/discretion at committee/executive levels*** – in accordance with the Council’s financial procedure rules, full Council is responsible for approving the annual prudential indicators and treasury management strategy, which is proposed to full Council by the Executive. All decisions on borrowing, investment or financing are delegated to the Chief Finance Officer, who is required to act in accordance with CIPFA’s Code of Practice for Treasury Management in Local Authorities. In addition at the end of each financial year an outturn report detailing the years performance against the Prudential and local indicators and treasury management activities is submitted to the Council’s Performance Scrutiny Committee, Executive and full Council. Mid Year treasury management reports are submitted to the Council’s Executive and Performance Scrutiny Committee, to update Members as to the actual position against the local and Statutory Prudential Indicators, and to summarise the treasury management activities undertaken during the previous six months.
  
- ***Principles and practices concerning segregation of duties*** – in order to reduce the risk of fraud and corruption, the following duties are divided between different staff:
  - As part of the procedures for making CHAPS payments (i.e. repayment of loans, depositing investments and urgent payments) three different members of staff undertake the stages of setting up the payment, approval and authorisation
  - Any investment or borrowing over 3 months must be agreed by the Financial Services Manager and then the Chief Finance Officer (or Assistant Director, Strategic Development in their absence). A briefing document giving all the details of the investment or borrowing will be presented for approval to all three signatories.
  - The principal and practices concerning segregation of duties is set out in the hierarchical responsibilities/duties of each post, as set out below

Appendix 4

**Treasury Management organisation chart** – the Council's current organisational chart is as follows:



▪ ***Statement of duties/responsibilities of each treasury post –***

**1. Chief Finance Officer**

- Duties in line with S151 and S114 responsibilities
- Authorised Dealer (i.e. authorised to invest and borrow in line with the Council's Treasury Management Strategy)
- Authorised Signatory

**2. Assistant Director – Strategic Development**

- Authorised Dealer (i.e. authorised to invest and borrow in line with the Council's Treasury Management Strategy)
- Authorised signatory

**3. Financial Services Manager**

- Duties in line with deputy S151 responsibilities
- Advise the Chief Finance Officer on Treasury Management matters
- Receive and review Treasury Management investment and borrowing proposals
- Review and appoint Treasury Management consultants
- Ensure that staff involved in treasury management receive appropriate training
- Ensure that the treasury management function is adequately resourced to meet current requirements
- Absence cover for the Chief Finance Officer for responsibilities detailed above.
- Ensure there is adequate internal checking and control
- Ensure the Treasury Management Strategy, the Treasury Management Outturn Report and mid-year Monitoring Reports are prepared and complied with
- Ensure implementation of Treasury Management actions agreed by the Chief Finance Officer
- Ensure Treasury Management Practices are complied with and are reviewed at least annually
- Ensure the appropriate division of duties within the section
- Identify and recommend opportunities for improved Treasury Management Practices
- Implementation of the Treasury Management Strategy
- Authorised Dealer (i.e. authorised to invest and borrow in line with the Council's Treasury Management Strategy)
- Authorised signatory



#### **4. Group Accountant (Technical and Exchequer)**

- Advise Financial Services Manager on Treasury Management matters
- Oversee the compilation of the yearly cash flow
- Oversee the monitoring, update, revision and reporting on the authorities cash flow
- Prepare the annual Treasury Management Strategy and Outturn Reports
- Compile mid year treasury management reports to the Council's Performance Scrutiny Committee
- Monitor and calculate the prudential indicators/local indicators and performance against budget targets (i.e. borrowing and investment interest)
- Prepare an annual budget for Treasury Management activities (i.e. borrowing and investment interest, debt management expenses)
- Ensure implementation of Treasury Management actions agreed by the Financial Services Manager and Chief Finance Officer
- Assist the Financial Services Manager in implementation of the Treasury Management Strategy
- Authorised Dealer (i.e. authorised to invest and borrow in line with the Council's Treasury Management Strategy)

#### **5. Accountant (Capital, Treasury and VAT)**

- Construction of yearly cash flow
- Advise Financial Services Manager and Group Accountant (Technical and Exchequer) on Treasury Management matters
- Monitor, update, revise and report on the authority's cash flow
- Monitor and calculate the prudential indicators/local indicators and performance against budget targets (i.e. borrowing and investment interest)
- Maintain the Council's Money Market Funds and Call accounts
- Liaise with brokers on a day to day basis and monitor interest rates
- Invest short-term cash surpluses in line with Councils investment policy/strategy
- Take short-term borrowings to cover cash flow shortages in line with Council's investment policy/strategy.
- Maintain the Councils Counterparty list in line with Council's investment policy/strategy
- Action periodic interest payments on long term loans
- Instigate year-end accruals for investments and loans.
- Assist in the preparation of mid year treasury management reports and Annual Treasury Management Strategy and Outturn Reports.
- Administer the Council's 3% Stock, war stock and local bonds

## Appendix 4

- Monitor the Councils approved Prudential Indicators/Local Indicators and percentage of investments held as Specified/Non-Specified Investments
- Authorised Dealer (i.e. authorised to invest and borrow in line with the Council's Treasury Management Strategy)
- Production of monthly reconciliations for all Treasury Management ledger accounts

### **6. Finance Assistant (Capital and Treasury), Finance Assistant (Banking), Finance Assistant (Banking and Control) and Insurance Assistant, Banking and Controls Officer**

- Authorised Dealer (i.e. authorised to invest and borrow in line with the Council's Treasury Management Strategy)
  - Absence cover for Accountant (Capital, Treasury and VAT)
  - Download on a daily basis the Council's bank statements in order to monitor Council's cash position
- **Absence cover arrangements** – The Banking Team (within the Technical and Exchequer section) provides absence cover for the Accountant (Capital, Treasury and VAT) and the Finance Assistant (Capital and Treasury).
  - **Dealing Limits** – all staff authorised to deal on behalf of the Council must comply with the Council's Counterparty list limits set out in the Treasury Management Strategy as detailed in TMP schedule 1
  - **List of approved brokers** –BGC Brokers, King and Shaxson and Link Asset Services
  - **Policies on taping of conversations** – All calls to Brokers are currently taped by the Brokers only. Taping facilities from the main Council switchboard are not available at present.
  - **Direct dealing practices** – interest rates/risks are evaluated through comparing the rates offered by brokers and those offered direct from institution e.g. Debt Management Office. Should deals from direct institutions prove to be better value this option will be preferred.
  - **Settlement transmission procedures** – all funds to be remitted in respect of a treasury management transaction are via CHAPS. The Council uses the Lloyds Commercial Banking online Electronic Payments System provided by the Council's Bankers. The procedure is as follows:
    - The officer setting up the payment completes a pro-forma detailing the agreed transaction(s) together with a batch header

## Appendix 4

- An officer with the appropriate level of access (see below) sets up the transaction(s) on Lloyds Commercial Banking online
- The transaction is approved by a separate officer with the appropriate level of access (see below) on Lloyds Commercial Banking online
- The transaction is then authorised by a separate officer with the appropriate level of access (see below) on Lloyds Commercial Banking online
- Finally, the transaction is submitted via Lloyds Commercial Banking online for onward transition to the borrower/lender

### **Lloyds Commercial Banking online Authorisation Levels**

<b>Post</b>	<b>Lloyds Commercial Banking online Level *</b>
Chief Finance Officer	Authorisation
Assistant Director – Strategic Development	Authorisation
Financial Services Manager	Authorisation
Group Accountant (Revenue)	Authorisation
Group Accountant (Technical and Exchequer)	Authorisation
Accountant (Capital, Treasury and VAT)	Set up, verify and first level of approval
Finance Assistant	Setup
Banking Officer	Set up, verify and first level of approval
Exchequer Officer	Set up, verify and first level of approval

Lloyds Commercial Banking online is the electronic banking system of the Council's bank, Lloyds.

- **Documentation requirements** – Money market deals are confirmed using either the Institutional Cash Distributors (ICD) treasury portal, this is an online independent trading platform, or verbally with the money market fund, counterparty or broker. All the Money market funds currently in use by the Council are registered with ICD. All deals are followed by written confirmation of the transaction from the borrower/lender i.e. amount, interest rate, period,

## Appendix 4

bank account details, proceeds or liability on maturity. Deposit accounts require an email/fax instruction when placing or withdrawing funds and this must be signed by one the Council's Authorised signatories. The Debt Management Office requires all deposits and withdrawals to be agreed verbally. In the event of the Council having temporary borrowing, the Council will confirm in writing the transaction. In addition, for those deals carried out via a broker, the broker will send their own confirmation of the transaction.

**TREASURY MANAGEMENT PRACTICE 6**  
**REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION**  
**ARRANGEMENTS**

- ***Content and frequency of board/committee reporting requirements*** – the annual Treasury Management Strategy sets out the expected treasury activities for the forthcoming financial year. This Strategy is submitted to the Audit Committee for review and scrutiny then onto the Executive who in turn recommends it to full Council, before the beginning of each financial year. The formation of the annual Strategy involves determining the appropriate treasury management decisions in light of the anticipated movement in both fixed and shorter-term variable interest rates. The Strategy is concerned with the following elements:
  - Debt and Investment Projections
  - Council's estimates and limits on future debt levels
  - The Expected Movement in Interest Rates
  - The Council's Borrowing Strategy
  - The Council's Investment Strategy
  - Treasury Performance Indicators and limits on activity
  - Local Treasury Issues

In addition an annual report is presented to the Executive and Full Council at the earliest practicable meeting after the end of the financial year. The report details the performance against the Prudential and local indicators and treasury management activities carried out during the year (i.e. borrowing and investment levels).

If any breach of the Policy occurs it will be reported to the Executive and Full Council i.e. breach of Prudential Indicators or Counterparty limits as soon as possible after they are identified.

Any breaches of indicators and limits will be verbally reported to the Financial Services Manager and the Chief Finance Officer as soon as they are identified.

- ***Content and frequency of management information reports*** - The Chief Finance Officer reports on a mid year basis to the Performance Scrutiny Committee on the performance against the Prudential Indicators and summarises the treasury management activities over the previous six months. In addition the Council sets budgetary targets for investment interest (net of short-term borrowing interest) and interest payable on borrowing, both on the General Fund and Housing Revenue Accounts. These budget targets are included in the Council's 5-year Financial

## Appendix 4

Strategy and are monitored on a regular basis to ensure there are no material variances. In the event of material variances, these would be reported to the Council's Performance Scrutiny Committee and Executive as part of the quarterly budget monitoring reports. As soon as any variances are identified they will be reported to the Financial Services Manager and then to the Chief Finance Officer.

**TREASURY MANAGEMENT PRACTICE 7**  
**BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS**

- ***Accounting practices and standards*** – in accordance with the Accounting Code of Practice issued by CIPFA, the Council will bring together for budgeting and management control purposes all the costs associated with treasury management activities. These costs and income will be included in the respective revenue accounts included in the Councils 5-Year Financial Strategy.
- ***Sample budgets/accounts*** – the budgets/accounts arising from treasury management activities are as follows:
  - Investment interest net of short-term borrowing interest (HRA, GF and other balances)
  - Interest payable on long term borrowing (HRA and GF)
  - Debt management expenses (HRA and GF)

These budget targets are included in the Council's 5-year Financial Strategy and are monitored on a regular basis to ensure there are no material variances. In the event of material variances, these would be reported to the Council's Performance Scrutiny Committee and Executive as part of the quarterly budget monitoring reports and reported monthly to the treasury management meeting.

- ***List of information requirements of external auditors*** – external auditors will have access to all papers supporting and explaining the operation and activities of the treasury management function. It is expected that the auditor will enquire whether the CIPFA Code on Treasury Management has been adopted and adhered to.

**TREASURY MANAGEMENT PRACTICE 8**  
**CASH AND CASH FLOW MANAGEMENT**

- ***Arrangements for preparing/submitting cash flow statements*** – An up to date cash flow estimate will be maintained in order to effectively manage cash balances. The regular review and updating of the cash flow will be submitted to each internal treasury management meeting and will influence the treasury management decision-making and analysis processes detailed in TMP3.
- ***Content and frequency of cash flow budgets*** – An annual cash flow forecast is produced prior to the beginning of the financial year. This is reconciled to the closing ledger balance of the Council's Summary a/c bank statement on a daily basis. Cash flow forecasts are continually updated and revised in line with information received from a variety of sources.

The annual cash flow forecast consists of an estimate of the total income, total expenditure and Treasury Management transactions in the financial year. Income receipts can be broken down into the following types:

- NNDR, Council Tax and Council House Rents
- Grants and Subsidy (including adjustments from previous years)
- Capital Receipts from sale of assets
- VAT
- Debtor bills and other miscellaneous income from services provided by the Council
- Interest from maturing investments, Money Market Funds and Bank accounts

Expenditure can be broken down as follows:

- NNDR to DHCLG and Lincolnshire County Council
- Precepts to Lincolnshire County Council and Police Authority
- Pooling of Housing Capital Receipts to DHCLG
- General creditor payments for goods and services received
- Payment of Benefit to claimants
- Capital programme spend
- Monthly salary payments
- Income Tax and other deductions from salary (to HM Revenue and Customs)
- Grants
- Levies
- Insurance premiums



## Appendix 4

Treasury Management can be broken down as follows:

- Interest payments on the Council's outstanding long-term debt
  - Investments (deposits to borrowers) and investment maturities
  - Repayment of maturing debt including debt restructuring
  - Receipt and repayment of short and longer-term loans
- ***Listing of sources of information*** – the sources of information used to initially compile and regularly up date the cash flow are as follows:

Income:

- DHCLG grant schedules (i.e. RSG)
- Other grant schedules (i.e. Home Office, DWP,)
- Internal Systems (i.e. Council Tax, Council House Rents, Capital Receipts, VAT, Debtors, Short and longer-term loans, Investment maturities and interest.)

Expenditure:

- DHCLG and Lincolnshire County Council payment schedules (i.e. NNDR payable)
  - Lincolnshire County Council and Lincolnshire Police precept schedules
  - Drainage Board schedules (Levies)
  - Grant Forms (i.e. DHCLG pooling of Right To Buy capital receipts)
  - Internal Systems (Housing Benefit Payments, Revenue and Capital Creditors, Payroll, Insurance premiums, Interest payments on the Council's outstanding debt, Investments, Maturing Debt)
  - The Council's 5-year Financial Strategy to calculate the creditor payments for goods and services received (capital and revenue)
- ***Bank statements procedures*** – Bank statements are available to be downloaded electronically on a daily basis from the Lloyds Commercial Banking online system.
- ***Payment scheduling and agreed terms of trade with creditors*** – Creditor payment runs are currently scheduled twice weekly. The majority of these payments (approximately 95% by total value) are paid by electronic means (primarily by BACS). The City Council aims to pay 100% its creditors within their agreed payment terms or if no terms are quoted within 30 days of receipt of their demand for payment.
- ***Arrangements for monitoring debtor/creditor levels*** – the raising of debtors is currently carried out within departments, but centrally controlled by the Exchequer Section. The recovery of outstanding Debtor invoices is undertaken by the Recovery Team within the Revenue and Benefits Shared Service, who follow strict recovery procedures.

## Appendix 4

- ***Procedures for banking of funds*** – See Banking Officer for further detail.

**TREASURY MANAGEMENT PRACTICE 9**  
**MONEY LAUNDERING**

▪ ***Procedures For Establishing Identity / Authenticity Of Lenders***

The City of Lincoln Council will not accept loans from individuals. All loans are obtained from the Public Works Loan Board, other local authorities, or from authorised institutions under the Financial Services and Markets Act 2000. This register can be accessed through the FSA web site on [www.fsa.gov.uk](http://www.fsa.gov.uk). When repaying loans, the procedures below will be followed to check the bank details of the recipient.

▪ ***Methodology For Identifying Sources Of Deposit***

In the course of its treasury activities, the Council will only lend money to, or invest with, those counterparties that are on its approved lending list and meet minimum criteria (TMP schedule 1). The Council only places deposits with counterparties which have been credit checked by the Rating Agencies Fitch, Moody's or Standard and Poor's. All transactions will be carried out by Direct Debit, BACS or CHAPS for making deposits or repaying loans.

▪ ***Anti-Money Laundering Reporting Officer***

The Council has appointed the City Solicitor to be the responsible officer to whom any suspicions that transactions involving the Council may involve the processing of criminal proceedings, should be reported. The City Solicitor will investigate the suspicion and will report the findings to the Chief Executive (the Disclosure Officer) if deemed necessary. Suspicious transactions will be investigated, as far as the Council is in a position to do so, or it is appropriate for the Council to do so and, if doubts remain, these transactions will then be reported to the National Criminal Investigation Service.

**TREASURY MANAGEMENT PRACTICE 10**  
**STAFF TRAINING AND QUALIFICATIONS**

- ***Details of approved training courses*** – In addition to extensive on the job training, all staff involved in Treasury Management are given the opportunity/encouraged to attend courses that are both specific to relevant issues and developmental in nature, to provide a wider context of the treasury management function e.g. to provide updates on the implications of new regulations/legislation/codes of practice or to obtain the latest economic forecasts for the economy and interest rates. Staff keep a record of courses and seminars they have attended.
  
- ***Approved qualifications for treasury staff***
  - Chartered Institute of Public Finance and Accountancy (CIPFA)
  - Other CCAB qualifications i.e.
    - Institute of Chartered Accountants in England and Wales (ICAEW),
    - Chartered Institute of Management Accountants (CIMA)
    - and Association of Certified Chartered Accountants (ACCA).
  - Association of Accounting Technicians (AAT).

Those staff that are CIPFA members are required by their Institute to act in accordance with CIPFA's Standard of Professional Practice on Treasury Management and the Chief Finance Officer also has a responsibility to ensure that the relevant staff are appropriately trained.

**TREASURY MANAGEMENT PRACTICE 11**  
**USE OF EXTERNAL SERVICE PROVIDERS**

- ***Details of contracts with service providers, including bankers, brokers, consultants and advisors –***
  - Lloyds Bank provides the primary Banking services.
  - Allpay provide the service for the collection of Council Tax, Rent and sundry debtors through Post Office and Paypoint facilities.
  - BGC Brokers, King and Shaxson and Link Asset Services provide money brokering services to the Authority. The City Council does not have a formal written contract with any of these organisations, therefore the Council is not restricted to using these brokers.
  - The Council contracts with an external consultant to provide expert independent advice on all aspects of Treasury Management services from a complete analysis of the Council's financial position with regard to its strategy and objectives, technical advice on all aspects of capital finance through to interest rate forecasting and economic advice. The current external consultant is Link Asset Services.
  - The Council makes use of a number of money market funds (MMFs), all of which are AAA rated, to place cash deposits. These MMFs have no fees and are used when their interest rates are competitive. The amount deposited with any MMF is restricted in line with the limits detailed in TMP1. The use of MMFs has the benefit of providing a liquid source of cash for cashflow management as funds can be withdrawn at any time with no notice.
  - The Council makes use of a number of Call Accounts operated by UK banks to place cash deposits. These accounts have no fees and are used when interest rates are competitive. The amounts deposited with Call Accounts are restricted in line with the counterparty limits detailed in TMP1. The funds deposited in call accounts require notice before they can be withdrawn.
- ***Procedures and frequency for tendering services –*** The Council's main banking services are subject to tender on a five-year cycle.
- The Allpay contract is not subject to tender as this was accessed utilising a framework agreement in conjunction with the other local authorities in Lincolnshire. The Council obtains preferential rates through this agreement as it is based on the combined transaction volumes of all the Lincolnshire local authorities, which would not be available in a stand-alone contract.

**TREASURY MANAGEMENT PRACTICE 12**  
**CORPORATE GOVERNANCE**

- ***List of documents to be made available for public inspection*** – The Council is committed to openness and transparency in its treasury management activities as demonstrated by the production of these TMP's and the adoption of the Treasury Management Code of Practice. In addition information about the Council's treasury management activities is freely accessible and contained in public documents;
  - 5-Year Medium Term Financial Strategy (Executive and Full Council)
  - Annual Prudential Indicator and Treasury Management Strategy (Executive and Full Council)
  - Treasury Management Outturn Report (Executive and Full Council)
  - Half Yearly Treasury Management Performance Report (Performance Scrutiny Committee)
  
- The procedures set out in these TMP's for reporting and audit of treasury management activities (both by internal and external audit) are designed to ensure the integrity and accountability of the function and these will be rigorously enforced. Furthermore the use of performance indicators should ensure continued best value in the allocation of treasury management resources.

**SUBJECT: INTERNAL AUDIT PROGRESS REPORT**

**REPORT BY: AUDIT MANAGER**

**LEAD OFFICER: JOHN SCOTT, AUDIT MANAGER**

## **1. Purpose of Report**

- 1.1 To present the Internal Audit Progress Report to the Audit Committee, incorporating the overall position reached so far, and summaries of the outcomes of audits completed during the period.

## **2. Executive Summary**

- 2.1 The report highlights progress against the audit plan.

## **3. Background**

- 3.1 A key requirement of public sector internal audit standards is that Internal Audit should report progress periodically to those charged with governance. The Audit Committee has within its terms of reference the responsibility for receiving a regular progress report from Internal Audit on the delivery of the Internal Audit Plan. The latest progress report for 2017-18 is attached as the appendix to this report.

### **3.2 Internal Audit Progress Report**

- 3.3 The Internal Audit progress report attached (Appendix A) covers the following areas :-
- Progress against the plan
  - Summary of Audit work
  - Implementation of Audit recommendations
  - Current areas of interest relevant to the Audit Committee

## **4. Organisational Impacts** (nb. Finance, Legal and E & D sections below are mandatory, others to be completed only where there is an impact)

### **4.1 Finance** (including whole life costs where applicable)

There are no direct financial implications arising as a result of this report.

### **4.2 Legal Implications** including Procurement Rules

There are no direct legal implications arising as a result of this report.

4.3 Equality, Diversity & Human Rights (including the outcome of the EA attached, if required)

There are no direct E and D implications arising as a result of this report.

**5. Recommendation**

5.1 Audit Committee is asked to note the content of the latest Internal Audit Progress Report for 2017-18 and consider whether any of the following options are relevant:

- Report and make recommendations to the Executive if they feel it appropriate.
- Refer any matter under review they feel appropriate to the relevant Portfolio Holder, Scrutiny Chair or Committee.
- Seek responses from Officers on matters arising (written or verbal) to be submitted to the next Audit Committee on any of the issues raised within this report or associated Appendices. Members may further wish to request the presence of the relevant Managers at the meeting to explain performance / specific issues.
- Accept the report and continue to monitor arrangements.

**Key Decision** No

**Do the Exempt Information Categories Apply?** No

**Call in and Urgency:** Is the decision one to which Rule 15 of the Scrutiny Procedure Rules apply? No

**How many appendices does the report contain?** One

**List of Background Papers:**

**Lead Officer:** Audit Manager Telephone 873321





## City of Lincoln Council



### Progress Report – January 2018 Appendix A

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<b>Introduction</b>	<b>1</b>
<b>Key Messages</b>	<b>2 - 3</b>
<b>Internal Audit Work Completed November – January</b>	<b>4</b>
<b>Other Significant Work</b>	<b>5</b>
<b>Audits in Progress</b>	<b>6</b>
<b>Performance Information</b>	<b>8</b>
<b>Other Matters of Interest</b>	<b>9</b>
<b>Appendices</b>	
Appendix 1 – Details of Limited or Low Assurance Reports	
Appendix 2 – Internal Audit Plan & Schedule 2017/18	
Appendix 3 – Assurance Definitions	
Appendix 4 – Performance Details	
Appendix 5 – Recommendations Overdue & Not Yet Due	

**Contact Details:**

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Audit Manager

***For all your assurance needs***

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# Introduction

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1. The purpose of this report is to:
  - Advise of progress made with the 2017/18 Audit Plan
  - Provide details of the audit work undertaken since the last progress report.
  - Provide details of the current position with agreed management actions in respect of previously issued reports
  - Raise any other matters that may be relevant to the Audit Committee role

# Key Messages

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2. The 2017/18 audit plan is progressing well; thirteen audits have been completed, six are in progress and three are being prepared. As at the end of January 77% of the revised plan has been delivered. Appendix 2 provides details on the current status of the audits within the plan.
3. Details on High priority recommendations can be found in Para 7 and for Medium priority recommendations see Appendix 5.

# Internal Audit Reports Completed November - January

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4. The following final reports have been issued since the last progress report;

High Assurance	Substantial Assurance	Limited Assurance	Low Assurance	Consultancy
Debtors Key Controls	Tenancy Services  Creditors Key Controls	None	None	None

**Note:** The Audit Committee should note that the assurance expressed is at the time of issue of the report but before the full implementation of the agreed management action plan. Definitions levels are shown in Appendix 4.

Below are summaries of the audit reports issued.

## **Debtors Key Controls – High Assurance**

We found that the expected key controls were in place and working well;

- Segregation of duties exists in the key stages of the debtors system; invoice production, authorisation of invoices, collection and reconciliation of income.
- Access to system parameters is restricted and is appropriate to user needs; leavers are actioned promptly.
- Ability to set up and amend customer data is limited to relevant staff.
- Authorisation of sales and credit invoices is set at the correct level.
- Automated double entry posting to debtors and ledger is now an automated part of the debtors system.
- The reconciliation of debtor income and clearing of suspense account is undertaken regularly.

## **Tenancy Services – Substantial Assurance**

The Council is responsible for the management of around 8,500 homes in the city. Effective management of Council owned homes is a key strand in ensuring continued availability of good quality affordable housing and it is therefore important that processes and risks are managed within tenancy services to help deliver Council's priorities. The aim of the service is to ensure the housing stock is used in the best possible way and to support all tenants to sustain their tenancies in line with their tenancy agreement.

The scope of the review was to provide assurance on the tenancy management function and how tenancies are sustained over the letting period to assist tenants in complying with tenancy conditions.

The review considered the following risks:

- Start & end of tenancies are not managed effectively
- Insufficient staff are available or do not have the necessary skills to undertake the work
- Information systems fail to deliver the required outputs
- Fraud risk is not managed

We examined these risks by considering the following for the start, end and ongoing maintenance of tenancies:

- Internal & external flow of information
- Types of tenancy allocated and management of the different reasons for ending a tenancy
- Procedure for record keeping on the housing IT systems
- Management of potential fraud risk

Our review provides substantial assurance that Tenancy Services has effective mechanisms in place for managing tenancies including the start and end of tenancies.



It is difficult to provide a “stand alone” assurance on tenancy services as in order to deliver the service and manage risk Housing Officers require the right information at the right time and in the right format from Housing Solutions. There have been resource issues within Housing Solutions which have affected the flow and accuracy of information available to Tenancy Services (this has previously been reported in a limited assurance audit report). Work is ongoing to address issues in this team. A new allocation system has now been purchased and this is due to be implemented for April 2018.

As part of looking at the start and end of tenancies we confirmed issues raised by the Tenancy Services Manager at the beginning of the audit that there were concerns around the flow of information to Housing Officers on new tenants. We considered this to be a high risk as Housing and Void Officers could make an initial visit to the tenant without being aware of potential risks from them. During the course of the audit, management have started to take action to address the issue through bringing the Void and Tenancy teams under the same management and starting to explore a pre-tenancy process and a co-ordinated approach. We have made recommendations in support of these management actions.

We have made further recommendations to strengthen controls which include:

- Strengthening the approach to tenancy fraud management
- Updating guidance and procedures
- Formally risk assessing the decision not to undertake routine property inspections

As part of the review we identified areas of good practice and that controls are operating to effectively manage these areas:

- Regulatory requirements being complied with
- Documentary evidence in place for all actions taken in managing tenancies
- Processes in place to secure information

Tenancy Services has recently been awarded the Anti-Social Behaviour (ASB) house-mark accreditation, which demonstrates the service has a fit for purpose approach to managing ASB cases meeting statutory duties and needs of the communities.

### **Creditors Key Controls – Substantial Assurance**

Our review gives us Substantial assurance that key controls are in place and operating to manage the key risks when ordering and paying for goods and services. We found that;

- Previous audits have identified a need to increase the use of purchase orders; a sub group chaired by the Chief Executive meets regularly and is working towards resolving this issue.
- The number of entries on the exception reports has reduced significantly since the previous audit and whilst a regular review is undertaken there is insufficient capacity within the Exchequer teams current workload to enable historic entries to be cleared; no associated risks have been identified.
- The Creditors system enforces a separation of duties through user roles and permissions.

- System parameters are set at an appropriate level and access is restricted to user needs; leavers are updated promptly.
- The ability to set up and amend creditor data (such as bank account details) is restricted and well controlled.
- A goods received note check is undertaken for all purchase orders as directed by the system.
- The Agresso system is able to recognise and produce a system alert for potential duplicate payments; additional checks are also undertaken by the Exchequer Officer.
- Payment runs are checked by two people, and BACS processing is authorised by senior staff; high value payments (over £25,000) are subject to a secondary authorisation.
- Payment of invoices within 30 days is monitored and performance against this measure continues to improve each year; 97.03% for 2016/17.

We identified one area that requires improvement. Authorisation schedules should be reviewed and agreed as an accurate record on an annual basis but we found that reviews were not undertaken in 2016 and 2017.

## Other Significant Work

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### 5. Updates on other significant work;

#### **Parliamentary election – Claim for expenses**

An audit of the expenses claim for the Parliamentary election held in June 2017 has been undertaken and we found that;

- Staff payments had been paid at the correct rates
- Claims for election expenses were clearly referenced and supported by invoices
- Expenditure was appropriate and necessary
- The total amount claimed did not exceed the maximum amount recoverable.

#### **Choice Based Lettings**

In the previous progress report we stated that a follow up of the recommendations made in this audit (report issued June 2017) would be undertaken and the findings reported to CMT and this Committee.

As the new Choice Based Lettings IT system is to be in place for April 2018 and felt that it would be more beneficial to review the new operating procedures as part of the 2018/19 Audit Plan instead.

#### **General Data Protection Regulations**

A short information governance health-check review has been undertaken to support the GDPR working group – no significant issues were identified. Relevant points have been incorporated into the action plan.

## **Combined Assurance Map**

Meetings have been held with senior management and a refreshed Map will be presented to CMT in February, prior to it being presented to this Committee in March.

## **2018/19 Audit Plan**

A Draft Plan has been presented to CMT and is covered in a separate report.

## **Asset Rationalisation**

Given the increasing amount of activity in this area an unplanned piece of audit work is being undertaken to provide assurance on compliance with the Asset Rationalisation Strategy and financial and risk management processes. A summary of the findings will be presented to this Committee in March.

## **Western Growth**

Internal audit undertook review work linked to Western Growth project management arrangements.

Whilst the overall governance arrangements for the project board comply with the LPMM, board arrangements could be strengthened further with a more active role for CMT. This is currently under review.

Contractor project plans required updating and this has been completed. The Client project plan also needed updating and this was presented to Board before Christmas.

Further detail on costs and projected costs was required from the main contractor and this was received.

Risk registers have been kept up to date during the project. Risk are now more specific on risk responsibility and will also align to the project plans. Risk mitigation on high impact areas will also be considered in more detail in future.

Contingency planning has been considered but this will be formalized in due course and a paper presented to Board.

Improvements were needed to the (formal) agreement of activity schedules and variation orders. This has been agreed moving forward.

## **Audits in Progress**

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6. The following audits are in progress;

- Planned Maintenance - fieldwork in progress
- Vision 2020 monitoring – fieldwork in progress
- Parking Income – fieldwork in progress
- Boutham Park restoration (final account) – fieldwork in progress

- Procurement – fieldwork in progress
- Private Sector Housing – being prepared
- Work Based Learning – being prepared
- Council Tax – being prepared

Other work in progress;

- Updating whistleblowing policy (now completed)
- National Fraud initiative matches – continued review with officers
- Liaison with LCFP – Lincs counter fraud partnership
- Fraud e-learning roll out
- Corporate fraud risk register update

## Audit Recommendations

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7. There is a formal process for tracking Internal Audit recommendations; they are recorded on the Council’s performance management system, IMPS, and management can record progress updates at any time. Performance DMT’s and Portfolio Holders monitor progress quarterly. Prior to each Audit committee Internal Audit will obtain a status report and review progress with management.

Internal Audit undertake formal follow up on all High priority recommendations and all recommendations made in audits where the overall assurance is Limited or Low; evidence of implementation will be requested and examined.

The table below shows all High priority recommendations, completed, due, overdue and not yet due.

Audit	Agreed action & original target date	Revised target date	Progress since previous Committee
<b>2015/16</b>			
ICT Mobile Devices (Substantial)  PH CMCS AD SD (CX)	Audit of ICT assets (linked to corporate inventory check) (Mar 16)	Mar 18	The inventory check will be updated taking into account any revised procedures in FPR.
Creditors (Substantial)  PH CMCS AD CFO (CX)	Review & update Purchase Order project (Sept 16)	Mar 18	This project has commenced.
<b>2016/17</b>			
Information Governance – Revenues &	Finalise the COLC-NKDC-WLDC ICT service level agreement (Jun 17, Dec 17)	Jun 18	Extended. Ongoing; linked to shared costs review



Benefits (Limited) PH CMCS AD SD (CX)	All staff to undertake DP e-learning (Apr 17)	Mar 18	Improving percentage
Housing Strategy New Build (Substantial) PH Housing AD H (Hous)	Review the LPMM and clarify its application for these sorts of projects (Sep17)	Mar 18	Ongoing. SPIT role is to move to another group which is part of the changes needed to LPMM.
Choice Based Lettings (Low) PH Housing AD H (Hous)	Detailed annual reviews and additional bid cycle testing	Jun 18	Commenced
<b>2017/18</b>			
Stores PH Housing AD H (Hous)	Instigate a regular sample check on material prices charged (Oct 17)  Make a decision on the resourcing of an upgrade to the Servitor system (April 18)	Apr 18	Completed  Extended Decision in principle to upgrade but will be after Choice Based lettings upgrade
Customer Experience Strategy PH CMCS AD SD (CX)	Project planning and monitoring processes (March 18)  Review how efficiencies (time saved) can be captured and reported (Apr 18)	Mar 18  Apr 18	Not yet Due  Not yet due
Tenancy Services PH Housing AD H (Hous)	Develop a pre-tenancy system to provide improved access to risk and needs information (Aug 18)	Aug 18	Not yet due

Appendix 5 provides details of all outstanding Medium priority recommendations.

## Performance Information

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8. Our performance is measured against a range of indicators and we are pleased to report a good level of achievement against our targets. Appendix 4 shows our performance as at end of November 2017.

## Other Matters of Interest

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9. There is nothing at this time.

## Appendix 1 – Details of Limited / Low Assurance Reports

There are none.

## Appendix 2 – Audit Plan Schedule

Area	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Current Status / Assurance Opinion
Public conveniences	Income collection	Q1	May	Aug	Completed - Substantial
Western Growth	Governance	Q1-4	May	Oct	Risk Register updated May, Aug & Oct advice work
NNDR	Key controls	Q1	May	Nov	Completed - High
Housing Benefits	Key controls	Q1	Jun	Nov	Completed - High
Emerging Legislation	Implementation of new legislation	Q1	April	Jul	Completed - Substantial
Housing Benefit Subsidy	Testing on behalf of External Audit	Q1-2	May	Aug	Completed
Human Resources	Sickness Absence	Q1-2	June	Aug	Completed - Substantial
Housing Allocations	Additional testing	Q1/2	June	Aug	Completed
Counter Fraud	Strategy, Fraud Risk Register, NFI, Counter Fraud Partnership	Q1-4	Apr		In progress NFI FRR
Corporate Governance	2016 Code compliance	Q2	May	Oct	Completed - Substantial
ICT	IT Disaster Recovery	Q2	July	Oct	Completed - Substantial
Housing Repairs Service	New stores contract	Q2	July	Nov	Completed - Limited
ICT	Applications	Q2	Oct	Nov	Completed - Substantial
Landlord Services	Risk Based Audit on tenancy management	Q2	Sept	Jan	Completed - Substantial
Corporate Governance	Ethical Governance	Q4	Jul		Framework in place for 18/19 audit
Elections	County & Parliamentary Expenses claims	Q2	Sept	Nov & Dec	Completed
Creditors	Key controls	Q2	Oct		Completed - Substantial
Debtors	Key controls	Q2	Oct		Completed – High
ICT	Channel Shift	Q2	Oct	Nov	Completed - Substantial
Housing investment	Planned maintenance	Q3	Nov		In progress
Business Strategy	Vision 2020 monitoring	Q3	Dec		In progress
Parking Services	Income collection &	Q3	Dec		In progress
Boultham Park Restoration	Contract variations & final account	Q3-4	Jan		In progress

Area	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Current Status / Assurance Opinion
Transport Hub	Project management/Final Account	Q3-4			
Procurement	CPR compliance	Q3-4	Jan		In progress
Council Tax	Risk Based Audit	Q3-4			Being prepared
Private Sector Housing	Risk Based Audit	Q4 – March			Being prepared
Risk Management	Strategic Risks - risk mitigation	Q4			
Housing Company	Governance arrangements	Q4			Not yet established Advice provided
Work Based Learning	Finance & risks	Q4			Being prepared
Combined Assurance	Update of the Assurance Map	Q4	Jan		In progress
Bus Station	Operation of new facility	Q4 - March			
Partnership Management	Governance & outcomes	N/A	N/A	N/A	Replaced by work on Asset Rationalisation
Housing Investment	New build projects	N/A	N/A	N/A	Moved to 18/19 at half year review
Growth Strategy	Risk Based Audit	N/A	N/A	N/A	Moved to 18/19 at half year review
Risk Management	Key controls	N/A	N/A	N/A	Removed at half year review; reliance on strategic risk work

## Appendix 3- Assurance Definitions<sup>1</sup>

<p><b>High Assurance</b></p>	<p>Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance.</p> <p>The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.</p>
<p><b>Substantial Assurance</b></p>	<p>Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.</p>
<p><b>Limited Assurance</b></p>	<p>Our critical review or assessment on the activity gives us a limited level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.</p>
<p><b>Low Assurance</b></p>	<p>Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore the risk of the activity not achieving its objectives is high.</p>

<sup>1</sup> These definitions are used as a means of measuring or judging the results and impact of matters identified in the audit. The assurance opinion is based on information and evidence which came to our attention during the audit. Our work cannot provide absolute assurance that material errors, loss or fraud do not exist.

## Appendix 4 - Performance Details 2017/18 Planned Work

Performance Indicator	Annual Target	Profiled Target	Actual
Percentage of plan completed.	100%	25% end June 50% end Sept 75% end Dec 100% end Mar	77% at end January 18
Percentage of key financial systems completed.	100%	100% end Mar	80% Final piece of work is in progress.
Percentage of recommendations agreed.	100%	100%	93% (75 out of 81)  6 IT DR recs were not agreed
Percentage of High priority recommendations due implemented.	100% or escalated	100% or escalated	50% (1 out of 2)
<b>Timescales:</b> Draft report issued within 10 working days of completing audit.	100%	100%	100% (9 out of 9)
Final report issued within 5 working days of closure meeting / receipt of management responses.	100%	100%	100% (9 out of 9)
Period taken to complete audit –within 2 months from fieldwork commencing to the issue of the draft report.	80%	80%	100% (9 out of 9)
Client Feedback on Audit (average)	Good to excellent	Good to excellent	Average of 28 out of 32 (or 88%).  Good-Excellent  7 issued and 4 returned.

## Appendix 5 – Medium priority Recommendations Overdue and Not Yet Due (at 31<sup>st</sup> January 2018)

Audit Area	Date	Assurance	No of Recs	Impl'd	Outstanding		Not Yet Due	Agreed Action & Original Target Date	Revised Target Date	Progress since previous Committee
					H	M				
<b>CX - Assistant Director Strategic Development</b>										
Performance Management PH CMCS	June 16	Substantial	3	2		1		Review reporting from the CBL system to establish if WLDC / NKDC data can be extracted from prime reports (Sept 16)  Policy Unit to work with Service Managers to support them validate a sample of indicators each year (Mar 17)	Mar 18  Mar 18	Superseded. A new CBL IT system is being installed so this is no longer applicable.  Not yet due
Customer Services PH CMCS	Oct 16	Substantial	6	5		1		Consider using annual (internal) satisfaction surveys (Feb 17)	Sep 17	Completed Manager 121's used instead
IT Applications PH CMCS	Nov 17	Substantial	7	0			7	BDIT will review how movers and leavers are captured and reported to application administrators.  System owners will authorize / sign off all staff with higher level access.  Plus IT application recommendations for:  • Website	Mar 18	Not yet due



								<ul style="list-style-type: none"> <li>• Forms</li> <li>• Agresso</li> <li>• IQ-Post me</li> <li>• My-info</li> </ul>		
Customer Experience Strategy	Nov 17	Substantial	10	0			10	<ul style="list-style-type: none"> <li>• Formally consider whether each project requires an Equality Impact Assessment</li> <li>• Review the arrangements for Digital Champions</li> <li>• Further improve the Self-serve arrangements</li> <li>• Improve the use of statistical information to help Boards monitor trends and identify specific issues</li> <li>• Determine internal and external communication requirements</li> <li>• Formalise the reporting of feedback and complaints</li> <li>• Introduce a risk register</li> <li>• Produce a plan for “Forms” system development in the future</li> </ul>	April 18	<p>Not yet due.</p> <p>Also see High Priority Recs in para 7 (x2)</p>
Malware PH CMCS	Nov 16	Substantial	8	6		2	<ul style="list-style-type: none"> <li>• Operate net consent software (Mar 17)</li> <li>• Include IT Security within HR training system (Mar 17)</li> </ul>	Mar 18	<p>Extended by 3 months. Software installed but not yet operational. Course drafted but needs above software</p>	

IT Disaster Recovery	Oct 17	Substantial	13	3			10	<ul style="list-style-type: none"> <li>• Seating in the event of the DR plan</li> <li>• Contractor requirements (Housing)</li> <li>• LAN connection (Hamilton House)</li> <li>• Property Services to review utility requirements</li> <li>• Produce Business Continuity Plans for the remaining service areas</li> <li>• Ensure that the approach used to assess risks is clearer</li> <li>• Address RPO in the Business Continuity Plans for the Service Areas</li> <li>• Have the Service Areas plan for 'loss of IT services' for up to two (2) weeks</li> <li>• Liaise with representatives from NKDC (and WLDC) to ensure that they understand the recovery timescales to which the IT department at CoLC are working to.</li> <li>• CMT to ensure that the BCG meets regularly</li> <li>• Ensure that the next BCP desk-top exercise includes the IT DR plan</li> </ul>	All 18	Mar	<p>Not yet due</p> <p>Being monitored / implemented through the Business Continuity Group</p> <p>Some actions could extend to June 18 but this will be updated at the March 18 report</p>
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								<ul style="list-style-type: none"> <li>• Review the arrangements for wider staff education and awareness</li> <li>• The IT department and Service Areas to meet to consider the issues and requirements pertaining to the 'return to normal service'</li> <li>• A test plan be produced and thereafter implemented</li> <li>• Ensure the (IT) room is "clear" other than IT equipment</li> <li>• Review security of racking</li> </ul>		
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171

Audit Area	Date	Assurance	No of Recs	Impl'd	Outstanding		Not Yet Due	Agreed Action & Original Target Date	Revised Target Date	Progress since previous Committee
					H	M				
<b>CX - Chief Finance Officer</b>										
Accountancy PH CMCS	June 15	Effective	3	1		2		<ul style="list-style-type: none"> <li>• Review &amp; update Financial Procedure Rules (Apr 15)</li> <li>• Review &amp; update the budget holder manual (Dec 15)</li> </ul>	May 18	Extended by 4 mths. In progress
Risk Management PH CMCS	May 17	Substantial	9	8		1		Improve guidance & deliver further training CLT / Members (Sept 17)	Mar 18	Not yet due. Approach being developed.
Corporate Governance Code	Oct 17	Substantial	See above					Consider the need for a detailed Asset Management Plan (Mar 18)	Mar 18	Not Yet Due

Audit Area	Date	Assurance	No of Recs	Impl'd	Outstanding		Not Yet Due	Agreed Action & Original Target Date	Revised Target Date	Progress since previous Committee
					H	M				
<b>CX – Head of Shared Revenues &amp; Benefits</b>										
Revenues and Benefits – Support Services PH CMCS	Jul 16	Substantial	5	4		1		Commence discussions on the apportionment of support costs at Operational Board to open the way for a report to Joint Committee (Aug 16, Mar 18)	Jun 18	Extended  Work has commenced. These matters will not be concluded before the end of March.
Revenues & Benefits – Information Governance PH CMCS	Feb 17	Limited	15	12	2	1		Complete the R&B Info Gov actions (Jun 17)  Also see High priority recs at para 7.	Feb 18	Not Yet Due
Recovery PH CMCS	Mar 17	Substantial	11	9		2		Use a second enforcement agent at COLC when the next procurement exercise is completed (Sep 18)  As part of the review of the Fair Collection & Debt Recovery Policy determine whether the data used to monitor the Policy (sec 10) are all relevant & appropriate (Jan 18)	Sep 18  Dec 18	Not yet due.  Not yet due.
Housing Benefit Key Controls	Dec 17	High	1				1	Record evidence of the check being undertaken on high value payments (Apr 18)	Apr 18	Not yet due.

Audit Area	Date	Assurance	No of Recs	Impl'd	Outstanding		Not Yet Due	Agreed Action & Original Target Date	Revised Target Date	Progress since previous Committee
					H	M				
<b>CX – City Solicitor</b>										
Sickness Absence  PH	Aug 17	Substantial	6	4			2	Review the processes for calculating performance & consider other measures (Dec 17)  Include reference to stress / mental health in guidance & procedures (Dec 17)  Set up a user defined form to capture (informal) Advice and Guidance meetings completed, so again these can be reported on more easily.	Dec 17  Feb 18  Dec 17	Completed  Completed Policy and procedures updated and training commenced  Completed – this is being managed in a different way through HR and AD 121's
Corporate Governance Code	Oct 17	Substantial	1	1				Upload the latest version of the Constitution onto the website (Oct 17)	Oct 17	Completed Further update in February 18

Audit Area	Date	Assurance	No of Recs	Impl'd	Outstanding		Not Yet Due	Agreed Action & Original Target Date	Revised Target Date	Progress since previous Committee
					H	M				
<b>DHR - Assistant Director Housing</b>										
Vehicle Fuel Management PH Housing	Feb 2013	Limited	8	7		1		Update the Driver Code of Practice (Aug 13)	Feb 18	Extended by 1 mth. Further consultation with Unions.
Control Centre PH Housing	Oct 16	Substantial	8	7		1		Ensure up to date agreements are in place with agencies (Sep 17)	April 18	Not yet due. Working on a contract that will form the basis of all others.
Responsive Repairs PH Housing	Jun 17	Substantial	6	2		4		<ul style="list-style-type: none"> <li>Record planned repairs on UH (Nov 17)</li> <li>Align the level of post inspections required by the Repairs Service Standard and the Quality Service Manual (Nov 17)</li> <li>Ensure post inspections are spread evenly across teams and repair types (Nov 17)</li> <li>Take before &amp; after photos (Nov 17)</li> </ul>	March 18       March 18	Extended  Completed  Completed  Extended
Stores	Nov 17	Limited	12		1	8	3	<ul style="list-style-type: none"> <li>Agree a process for adding items to the core stock list (Mar 18)</li> <li>Develop a process for paying TP for goods used by other service areas (Nov 17)</li> </ul>	Mar 18  Nov 17	Not Yet Due  Completed

								<ul style="list-style-type: none"> <li>• Establish a process to ensure that staff are on site to receive any third party deliveries (Dec 17)</li> <li>• Implement, document &amp; communicate a process for tool purchase and staff discount (Oct 17)</li> <li>• Introduce a 6-monthly review of the store card limits (Oct 17)</li> <li>• Undertake a fraud / theft risk assessment (Dec 17)</li> <li>• Ensure that the operation of CCTV cameras is in accordance with DP requirements (Dec 17)</li> <li>• Review out of hours security and access (Oct 17)</li> <li>• Undertake a regular stock-check of materials on vans (Jan 18)</li> <li>• Clear the unallocated materials suspense account on a regular basis (Dec 17) <ul style="list-style-type: none"> <li>• Draw up an exit strategy as per contract with TPerkins</li> </ul> </li> </ul> <p>Also see High priority recs at para 7.</p>	Dec 17	Completed
									Oct 17	Completed
									Oct 17	Completed
									April 18	Extended
									Dec 17	Completed
									Oct 17	Completed
									Jan 18	Completed
									Mar 18	Extended
									Mar 18	Extended

Tenancy Services	Jan 18	Substantial	7				7	<ul style="list-style-type: none"> <li>• Review &amp; update procedures and service standards (Sept 18)</li> <li>• Verify tenant identity at sign up and the 3 week visit (Feb 18)</li> <li>• Update the fraud strategy &amp; fraud risk assessment, and undertake some pro-active work (Sept 18)</li> <li>• Review fraud training requirements (Nov 18)</li> <li>• Consider undertaking annual inspections (Sept 18)</li> <li>• Record eviction authorisation on UH (Feb 18)</li> </ul> <p>Also see High priority rec at para 7.</p>	<p>Sept 18</p> <p>Feb 18</p> <p>Sept 18</p> <p>Nov 18</p> <p>Sept 18</p> <p>Feb 18</p>	Not yet due



Audit Area	Date	Assurance	No of Recs	Impl'd	Outstanding		Not Yet Due	Agreed Action & Original Target Date	Revised Target Date	Comments / Progress
					H	M				
<b>DCE - Assistant Director Health and Environmental Services</b>										
Empty Homes PH Housing	Sept 13	Limited	6	5		1		Review the Private Sector Housing Enforcement Strategy (Apr 14)	Apr 18	Not yet due
Health & Safety Development Plan PH CMCS	Mar 17	Substantial	2	1		1		Resolve the remaining RO cases (Aug 17)	Mar 18	Not yet due. 1 outstanding.

Audit Area	Date	Assurance	No of Recs	Impl'd	Outstanding		Not Yet Due	Agreed Action & Original Target Date	Revised Target Date	Comments / Progress
					H	M				
<b>DCE - Assistant Director Communities &amp; Street Scene</b>										
Boultham Park Refurbishment  PH RSH PH PPER	Jun 17	High	2	1		1		Complete the revised partnership agreement (Jul 17)	Dec 17	Meeting December to finalise  Update to follow

Audit Area	Date	Assurance	No of Recs	Impl'd	Outstanding		Not Yet Due	Agreed Action & Original Target Date	Revised Target Date	Comments / Progress
					H	M				
<b>MDD – Major Developments Directorate</b>										
Transport Hub  PH CMCS PH PPER	April 17	Substantial	9	6		3		Review Thub health and safety file CHS (Jul 17)  CE's finalized and marked off financial report (Jul 17)  CE documentation (Apr 17)	Feb 18  Feb 18	In progress Part of project closedown  In progress Part of closedown  As above

<b>SUBJECT:</b>	<b>INTERNAL AUDIT PLAN</b>
<b>DIRECTORATE:</b>	<b>CHIEF EXECUTIVE AND TOWN CLERK</b>
<b>REPORT AUTHOR:</b>	<b>JOHN SCOTT, AUDIT MANAGER</b>

**1. Purpose of Report**

1.1 To consider the draft Internal Audit Plan and Strategy 2018-19.

**2. Executive Summary**

2.1 Members requested a draft version of the audit plan before final approval in March. This audit plan sets out the proposed work of Internal Audit for 2018-19. The internal audit plan is updated each year and is based upon a risk assessment and our Combined Assurance work and discussions with Management.

**3. Report Summary**

3.1 A detailed breakdown of the plan and strategy is attached at Appendix A.

3.2 It is likely that Housing Benefit Subsidy claim work will be completed by Internal Audit again during 2018-19 and an allocation is included within the plan.

3.3 Minor variations to the plan may be approved by Management on a risk basis; any major changes will be reported via the Audit Committee in accordance with agreed terms of reference.

**4. Organisational Impacts**

4.1 There are no direct financial implications.

4.2 There are no direct legal implications; the Council has a responsibility under the accounts and audit regulations to provide an adequate and effective internal audit.

**5. Recommendation**

5.1 That Audit Committee consider the draft internal audit plan for 2018-19.

<b>Is this a key decision?</b>	No
<b>Do the exempt information categories apply?</b>	No
<b>Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply?</b>	No
<b>How many appendices does the report contain?</b>	One
<b>List of Background Papers:</b>	None

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# City of Lincoln Council Internal Audit Plan 2018/19 Draft



## What we do best ....

Innovative assurance services

Specialists at internal audit

Comprehensive risk management

Experts in countering fraud

## ..... And what sets us apart

Unrivalled best value to our customers

Existing strong regional public sector partnership

Auditors with the knowledge and expertise to get the job done

Already working extensively with the not-for-profit and third sector

# Contents



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188  
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	Page
Introduction	1
Internal Audit Strategy	1
Draft Internal Audit Plan	3
Working Protocol & Performance	6
Quality Assurance Framework	7
Staffing and Fees	8
Appendices	
Appendix A – Draft Internal Audit Plan	9
Appendix B – Auditable Areas	16





## Introduction

1. Internal Audit is a statutory service required under the Account and Audit Regulations 2015<sup>1</sup>. We provide independent assurance designed to add value and improve how the Council operates. We help the Council achieve its priorities and objectives by bringing a systematic, disciplined approach to evaluate and improve the management of risk, control and governance processes of the Council.
2. This report sets out the proposed Internal Audit plan. The aim is to give a high level overview of areas we are likely to cover - giving you an opportunity to comment on the proposals.
3. Our work is carried out in conformance with the UK Public Sector Internal Audit Standards. These require that the scope of Internal Audit covers the whole range of the Council activities – seeking to provide an annual internal audit opinion on the governance, risk and internal control environment of the Council which has been established to:
  - Achieve strategic objectives
  - Ensure effective and efficient operational systems and programmes.
  - Safeguard assets and interests of all kinds (including risks that relate to work it undertakes through partnerships)
  - Ensure the reliability and integrity of financial and operational information.
  - Ensure economic, efficient and effective use of council resources.
  - Ensure compliance with established policies, procedures, laws, regulations and contracts.
4. It is important that the Internal Audit function focusses its work on what matters most to you – providing insight, assurance and added value to the Council.
5. To help us do this we propose to change the way we prioritise and schedule our work – having a set annual plan is proving too restrictive on the audit service and for clients. Working with you we intend to have a continuous rolling audit work plan – updated each quarter – responding to changing circumstances or emerging risks during the year.
6. This approach has the benefit of enabling greater flexibility and responsiveness – ensuring each piece of work is the right one, delivered at the right time. It also delivers greater productivity and efficiencies – reducing abortive planning and engagement time. The plan becomes more dynamic and responsive – essential for an effective Internal Audit service.
7. Our internal audit activity and plan has been driven by the Council's key objectives within the corporate plan, your key risks and critical service areas identified as part of the Combined Assurance Map.
8. Our aim is to align our work with other assurance functions – seeking to look at different ways of leveraging assurance to help us to maximise the best use of the Internal Audit resource and other assurance functions in the Council.
9. By adopting this approach it is possible to give the Council comfort that there is a comprehensive risk and assurance framework with no potential gaps. Internal Audit are then able to use our audit planning tool to target resources. This will to minimise duplication of effort through sharing and coordinating activities with management and other management oversight functions.

## Our Internal Audit Strategy

<sup>1</sup> The Account and Audit Regulation 2015 state that 'A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes – taking into

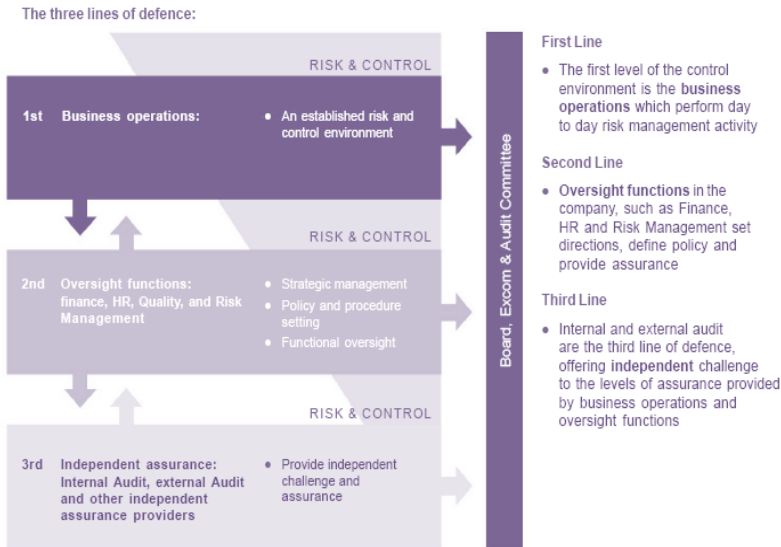
account public sector internal auditing standards or guidance'. The work of internal audit provides a substantial element of this requirement – in conjunction with the Audit Committee and Management.



10. We have identified the level of assurances in place by using the "Three lines of assurance" model – See **Figure 1**.

11. **Figure 2** shows the overall assurance levels on the Council's critical service areas / activities as at December 2017.

**Figure 1 – Three Lines of Assurance Model**



185

**Figure 2 –Your Assurance Status**  
To be completed for the final audit plan

12. Our Internal Audit Strategy also seeks to co-ordinate our work with other assurance providers where we can. In particular we liaise with External Audit to ensure the Council gets the most out of its combined audit resource – keeping audit fees low.

## How we choose what we look at?

13. Various sources of information help inform our plan (see **Figure 3**. below)

## Our Internal Audit Plan

**Figure 3 – Sources of information considered when developing Internal Audit activity**



186

14. We prioritise our audit work taking into account the following considerations:

- **Significance** - how important is the activity to the Council in achieving its objectives, key plans and in managing its key risks. We look at both financial loss and strategic impact.
- **Sensitivity** - how much interest would there be if things went wrong and what would be the reputational and political impact.
- **Level of Assurance** – we assess the current level of assurance evaluating reliability and contribution to the Head of Internal Audit annual opinion on governance, risk and control.
- **Timescales** – when it will happen (this will determine when is the best time to do the Audit).

15. All potential pieces of audit work have been evaluated and the resources available mean that not all areas will be audited in a 12 month period. Each of the areas we propose to review are detailed in **Appendix A**. Information on other potential audit areas is provided in **Appendices B** for information.

## Our Audit Focus for 2018/19

16. In the following table we provide information on key audit areas and the rationale for their inclusion in the audit strategy and plan.

Area	Reason for inclusion in the Internal Audit Strategy and Plan	Area	Reason for inclusion in the Internal Audit Strategy and Plan Area
<b>Financial Governance</b>	<p>Providing assurance that key financial controls are in place and operating effectively during the year across all areas of the Council. This work provides the Section 151 Officer with a key element of his assurance that the Council has effective arrangements for the proper administration of its financial affairs.</p> <p>The areas of coverage and key controls to be tested will be agreed the Section 151 officer. Bank is included for 18/19, procurement, Insurance</p>	<b>Critical Activities</b>	<p>The combined assurance work undertaken in 2017/18 identified some critical activities where a potential audit would provide independent assurance over the effectiveness of risk management, control and governance processes. Working with management we will prioritise when audit work will be undertaken - potential areas for 2018/19 include: Business Strategy (Vision 2020) City Lottery; Housing Allocations; Council house sales; Planning; Growth; Commercial lease income</p>
<b>Governance &amp; Risk</b>	<p>Providing assurance that key governance controls are in place and are operating effectively. These cross cutting audits focus on the Council's second line of assurance - corporate rather than service level systems. The areas proposed to be included in the plan are:</p> <ul style="list-style-type: none"> <li>▪ Information Governance; Human Resources; Risk Management; Counter Fraud; Partnerships; Governance; IT DR/Business Continuity</li> </ul>	<b>Project Assurance</b>	<p>There have been a number of critical projects identified by the Council. We will seek to provide assurance around their successful delivery (on-time – within budget – deliverables achieved and benefits realised).</p>

187

# Our Internal Audit Plan

Area	Reason for inclusion in the Internal Audit Strategy and Plan
<b>IMT</b>	<p>Technology and associated threats and opportunities continue to evolve at a pace. The effectiveness of IMT has a great impact on how well the Council works. We will seek to provide assurance that key controls comply with industry best practice and are operating effectively. Audits planned come from previous year assessments and our awareness of current IMT risks. We have included</p> <ul style="list-style-type: none"> <li>▪ IT Security / IT Projects</li> <li>▪ IT Applications</li> <li>▪ IT Strategy</li> </ul>
<b>Follow Up</b>	<p>Where an audit receives a Limited or Low Assurance level we will carry out a follow up audit to provide assurance that the identified control improvements have been effectively implemented and the risks mitigated.</p> <p>Working with management we also track the implementation of agreed management actions for all audit reports issued. We follow up and obtain evidence for high priority recommendations.</p>
<b>Combined Assurance</b>	<p>Working with management we co-ordinate the levels of assurance across the Council's critical activities, key risks, projects and partnerships – producing a Combined Assurance Status report in January 2019.</p>

Area	Reason for inclusion in the Internal Audit Strategy and Plan
<b>Consultancy /VFM / No-Opinion Reviews</b>	<p>At the request of management we undertake specific reviews where they may have some concern or are looking for some advice on a specific matter or around governance, risk and controls for a developing system. Such reviews are not normally given an audit opinion.</p>

17. The Council's Internal Audit Plan is **400 Days** – with an additional **50 days** for testing of the Housing Subsidy claim on behalf of External Audit.

## Annual Internal Audit Opinion

18. We are satisfied that the level and mix of resources - together with the areas covered in the plan - will enable the Head of Internal Audit to provide their annual internal audit opinion.

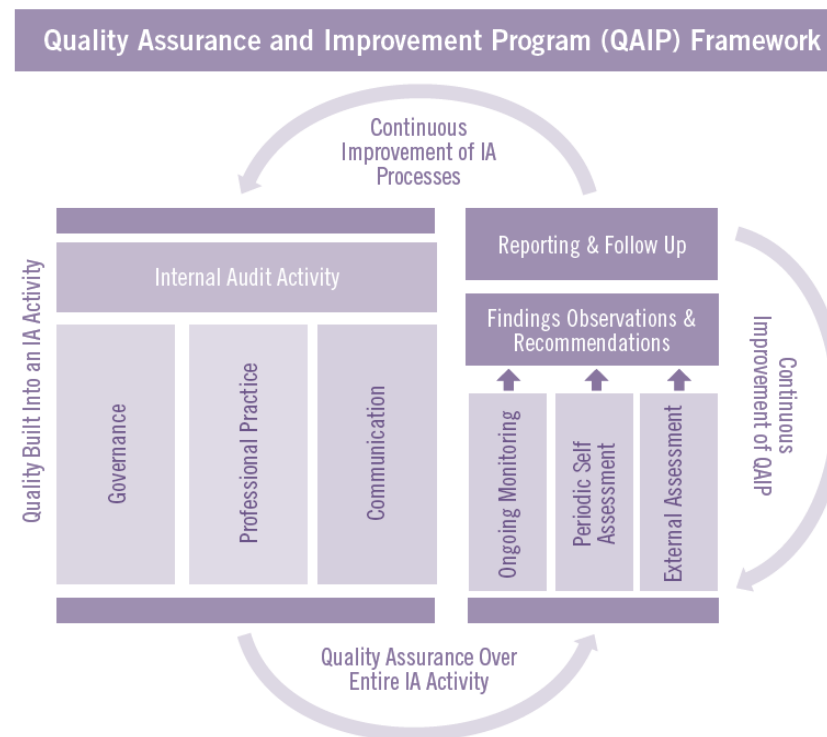
19. Our approach to delivering of internal audit work is based on a clear protocol detailed in the Audit Charter. How this works in practice is set out opposite.
20. Our performance is monitored by the Section 151 Officer and the Audit Committee - measured against 3 key areas:
- Delivery of planned work.
  - Timeliness (contemporary reporting).
  - Quality and Impact of work (communicating results / added value).
21. Strong communication is fundamental to quality delivery and maintaining trusting relationships. We keep management informed in accordance with agreed protocols including:
- agreeing potential audit work for the forthcoming year
  - providing quarterly updates to evaluate progress and discuss activities and priorities for the next quarter.
  - for individual audit engagements we hold planning meetings in person (our preference) by phone or email to discuss and agree the terms of reference and scope of our work..
  - we keep you informed of key findings during the audit and upon conclusion we hold a debrief meeting in person to discuss our findings and any outstanding issues.



- We communicate the results of our audit work in a clear and concise way – securing management action where control improvements are needed.
- We support Senior Management in attending the Audit Committee where a Limited or Low Assurance level has been given against the activity.

22. Quality is built into the way we operate – we have designed our processes and procedures to conform to best practice applicable to Internal Audit – in particular the UK Public Sector Internal Audit Standards and the CIPFA Local Government Application Note.
23. Our audit team offers a wide depth of knowledge and experience gained across different organisations. We promote excellence and quality through our audit process, application of our Quality Assurance Framework and our training and development programme.
24. Our Quality Assurance Improvement Programme incorporates both the internal (self) and external assessments – this is a mandatory requirement and the Head of Audit reports annually on the results and areas for improvement. Our internal assessments must cover all aspects of internal audit activity – **Figure 4** shows how we structure our internal assessments to ensure appropriate coverage.
25. We use a number of ways to monitor our performance, respond to feedback and seek opportunities to improve. Evidence of the quality of our audits is gained through feedback from auditees and the results of supervision and quality assurance undertaken as part of our audit process.
26. Our Internal Audit Charter sets out the nature, role, responsibilities and authority of the Internal Audit service within the Council – this was approved by the Audit Committee and is due to be reviewed on 2018 following the planned revision of the CIPFA Local Government Application Note.

**Figure 4 - Scope of Quality Assurance Improvement Programme**



### Your Internal Audit Team

27. Your Internal Audit Team will be led by John Scott (Audit Manager), supported by Paul Berry (Principal Auditor) and Helen Storr and Karen Atkinson.
28. The team will be supported by specialists from Assurance Lincolnshire and our wider audit framework as and when appropriate.
29. An indicative staff mix delivering our Internal Audit service to you is shown below:

Grade	2018/19 (days)	Grade Mix (%)
Head of Internal Audit	160	36%
Principal Auditor	120	36%
Senior Auditors	160	26%
ICT Consultant	10	2%

### Conflicts of Interest

30. Internal Audit remains sufficiently independent of the activities that it audits to enable auditors to perform their duties in such a way that allows them to make impartial and effective professional judgements and recommendations.
31. We are not aware of any relationships that may affect the independence and objectivity of the team and which are required to disclose under the internal auditing standards.

## Appendix A - Draft Internal Audit Plan

Audit Area	Assurance Sought	Internal Audit Risk Assessment	Assurance Map RAG Rating	Risk Register SRR (All); DRR(Red);FRR	Corporate Priority Vision 2020	Management Request	Internal Audit Priority
<b>Critical Activities</b>							
<b>Chief Executive</b>							
<b>Human Resources (10)</b>	Effective implementation of the new people strategy	Fin/Gov	Amber	SRR	HPS		
<b>Human Resources (3)</b>	To follow up the attendance management audit 2017/18 New occupational health contract	Fin/Gov	Amber	SRR	HPS		✓
<b>Human Resources (10)</b>	We will review recruitment processes to ensure compliance with policy / procedures; induction will also be covered	Fin/Gov	Amber	SRR	HPS		✓
<b>Commercial Property and Small Business Support (10)</b>	Commercial property income. We will also review arrangements at the Council's managed workspace (Terrace/Greetwell road).	Amber	Green		RI		✓
<b>Business Strategy (Vision 2020) (10)</b>	We will build on the work undertaken 2017/18 by examining project management on key projects, including Housing and other areas.	Amber	Green	SRR	V2020 RI		✓
<b>Partnerships (10)</b>	We will review the Council's partnership arrangements to ensure that partnership leads are appropriately managing the Council's involvement in terms of governance and effectiveness.	Fin/Gov	Amber		V2020		✓
<b>Commercialisation/ Asset Rationalisation (10)</b>	Review of strategy/projects including strategy, business case, risk management, project management, management arrangements, and delivery.	Amber	Amber		V2020		✓



## Appendix A - Draft Internal Audit Plan

<b>Director of Housing and Regeneration</b>	<b>Critical Activities</b>						
<b>Housing Allocations/Choice Based Lettings (10)</b>	To review the migration of data to the new system; accuracy and arrangements for the new system following the 2017/18 audit.	Red	Red	DRR			✓
<b>Housing Voids Plus Aids and Adaptations Rechargeable repairs</b>	To review the arrangements for managing housing voids/Aids and Adaptations, including necessary repairs. <i>(Potential audit – if time allows during year)</i>	Amber	Green		QH		
<b>Council house sales (5)</b>	To review the processes around sales / discounts and ensure income is received correctly	Amber	Green				
<b>New Build / Housing Company (10)</b>	New build contracts and any links to the new housing company	Amber	Green				
<b>Health and Safety (10)</b>	Housing fire risk - governance arrangements	Amber				✓	
<b>Strategic Director – Communities &amp; Environment</b>	<b>Critical Activities</b>						
<b>Planning (10)</b>	We will review arrangements for the CIL (Community Infrastructure Levy) and S106  The local plan has been approved and is now in delivery. This now needs close monitoring and management assurance that the plan is being delivered.	Amber	Green				

## Appendix A - Draft Internal Audit Plan

194

<b>CCTV</b>	We will review the arrangements for management / monitoring of CCTV <i>(Potential audit – if time allows during year)</i> Plus management of WiFi network which is included within the CCTV network and part of the same installation project	<b>Red</b>	<b>Green</b>				✓
<b>Private Sector Housing (5)</b>	DFG/ Arrangements for the new Heating scheme	<b>Amber</b>	<b>Amber</b>				✓
<b>Major Developments Directorate</b>	<b>Critical Activities</b>						
<b>Growth (10)</b>	We will review the Council's Economic and Growth agenda including strategies, investment, partnerships, and infrastructure.	<b>Red</b>	<b>Green</b>		<b>G</b>		✓
<b>Transport Hub (8)</b>	Assurance the closedown of works and final account	<b>Red</b>	<b>Green</b>	<b>SRR DRR</b>	<b>G</b>		✓
<b>Financial Governance</b>							
<b>Chief Executive</b>							
<b>Benefits (10)</b>	We will review the arrangements for the roll out of Universal Credit and how the Council is managing the risks involved Including the potential impact on Housing.	<b>Fin/Gov</b>	<b>Green</b>	<b>DRR</b>	<b>RI</b>		
<b>Counter Fraud (20)</b>	We will continue to liaise with the Lincolnshire Counter fraud partnership, undertake a Counter fraud healthcheck, engage with NFI and build on work from Fraud risk assessment and continue to roll out the fraud e-learning training.	<b>Fin/Gov</b>	<b>Amber</b>	<b>FRR</b>			✓
<b>NNDR (5)</b>	Business Rates Growth Policy/Reliefs	<b>Fin/Gov</b>	<b>Green</b>				
<b>Bank (10)</b>	We will review the key controls around the Council' banking arrangements.	<b>Fin/Gov</b>	<b>Green</b>				✓

## Appendix A - Draft Internal Audit Plan

<b>Procurement (10)</b>	Review of frameworks and other OJEU level procurement to ensure compliance and value of money <i>Plus delivery of the social value policy and its outcomes, which is also a key project for V2020</i>	Fin/Gov	Amber		HPS RI		✓
<b>City Lottery (3)</b>	To review the governance arrangements for the new City Lottery	Amber	Green				
<b>Governance and Risk</b>							
<b>Chief Executive</b>							
<b>Governance (10)</b>	We will review the Council's cultural/ethical framework using an Assurance Lincolnshire toolkit	Fin/Gov	Green				✓
<b>Governance (5)</b>	Annual assurance focussing on the governance structures in place. We will consider the key elements of governance	Fin/Gov	Green				✓
<b>Risk Management (5)</b>	To review the Council's risk management arrangements to ensure compliance, aid with annual opinion and following up the audit work in 2017. Will include the risk management strategy, business areas approach to risk, risk registers, reporting of risk and mitigations, review and update of the risk registers. Information reported to management and committees.	Fin/Gov	Green				✓
<b>Information Management and Technology (IMT)</b>							
<b>Chief Executive</b>							
<b>Information Governance (10)</b>	Assurance over the project to implement the new General Data Protection Regulations	Fin/Gov	Amber	DRR SRR	HPS		✓

## Appendix A - Draft Internal Audit Plan

<b>ICT Audit (30)</b>	We will seek to provide assurance that key controls comply with industry best practice and are operating effectively. This year we will continue with our review of Applications and review other IT security risk areas (to be agreed) to understand whether Cyber Threat is appropriately mitigated. Review of ICT Strategy implementation and ICT project /programme management – Operations and Business Development.	Fin/Gov	Green	✓	✓		✓
<b>IT DR/Business Continuity (3)</b>	We will follow up with the Business Continuity Group actions arising from the IT DR audit in 2017/18	Fin/Gov	Amber	SRR DRR	HPS		✓
<b>Project Assurance</b>							
<b>Western Growth (15)</b>	To review project management arrangements	Red	Amber	SRR DRR	G		✓
<b>Programmes and Projects (13)</b>	To provide assurance on project and programmes E.G Allotments / Sincil Bank / De Wint Court etc  Review of project / programme governance arrangements including SPIT replacement	Red	Amber	✓	✓		✓
<b>Consultancy /VFM / No-Opinion Reviews</b>							
<b>Focus to be agreed (10)</b>	An example could be comparison of fees and charges applied by individual councils with a choice of comparator councils, and identify opportunities to increase income, as well as reviewing charging policies for consistency with wider objectives, such as inclusion and equality of access. We will liaise with the Business Development team on any specific review areas. We will identify VFM issues (if they arise) during standard risk/assurance audits	Amber	Green				
<b>Emerging Legislation (2)</b>	To provide assurance on management arrangements for forthcoming legislation	Red	Green				

196

## Appendix A - Draft Internal Audit Plan

Audit Area	Assurance Sought	Internal Audit Risk Assessment	Assurance Map RAG Rating	Strategic Risk Register	Corporate Priority	Management Request	Internal Audit Priority
<b>Key Control Testing</b>	<p>To provide high level assurance that the Council's key controls are in place and operating effectively – this will cover financial and corporate areas. The areas of coverage and the key controls tested will be agreed with management but can cover:</p> <ul style="list-style-type: none"> <li>– Financial – Supplier data – payments</li> <li>– HR – new starters, leavers, changes to payroll data</li> <li>– Key reconciliations eg bank – payroll – creditors - income</li> <li>– Complaint handling</li> <li>– Revs &amp; Bens – key control indicators around collection and accuracy rates.</li> </ul> <p>No additional days 18-19 - See financial Governance</p>	<b>Red- DD</b>	<b>Green</b>	<b>Must Do</b>			
<b>Sub Total Days Allocated</b>	<b>287 days</b>						

197

## Appendix A - Draft Internal Audit Plan

Other Relevant Areas	Assurance Sought	Internal Audit Risk Assessment	Assurance Map RAG Rating	Strategic Risk Register	Corporate Priority	Management Request
<b>Audit follow up work (10)</b>	To provide management with assurance that actions from previous key audits have been implemented and this has led to improved outcomes.	N/A				
<b>Combined Assurance (10)</b>	Completing the integrated assurance mapping process for the Council by helping to map assurance against critical activities and key risks. Helping coordinate the development of the annual status report.	N/A				
<b>Contingency and Emerging risks (30)</b>	Contingency for any brought forward work and emerging risks					
<b>Sub Total Days Allocated</b>	<b>50 days</b>					
Advice and liaison, management, reactive investigations (35)						
Annual Internal Audit Report – (3)						
Audit Committee –(20)						
Review IA Strategy and Planning – (5)						
<b>Sub Total Days Allocated</b>	<b>63 days</b>					
<b>Audit Plan - Grand Total</b>		<b>400 days</b>				
<b>Housing Benefit Subsidy</b>		<b>50 days</b>				

## Appendix B- Auditable Areas

Service Area	Auditable Area / System (DD = Due Diligence)	Last audited	Last Opinion	Assurance Map Rating (2018)	Audit Risk Assessment (2018)	Included in 2018/19 Plan	Comments
<b>Chief Executive</b>							
CX Business Management	Business Management			Green	Green		
CX	Strategic Information Analysis			Green	Green		
City Solicitor	Legal	2012/13		Green	Fin/Gov		19/20
	Information Governance/GDPR	2017-18* (H/Check)		Amber	Fin/Gov	Yes	
City Solicitor	Electoral Services (elec reg & elections)	2017/18		Green	Amber		
City Solicitor	Democratic Services			Green	Amber		
City Solicitor	Procurement	2017/18		Amber	Fin/Gov	Yes	F/Work+ OJEU
City Solicitor	HR	2017/18		Amber	Fin/Gov	Yes	Workforce strategy Sickness f/up
City Solicitor	Payroll	2016/17		Green	Fin/Gov		
City Solicitor	Workbased Learning	2017/18		Amber	Amber		
City Solicitor	Civic and Twinning (5)			Green	Green		
Chief Finance Officer	Finance / Income / Bank / Budget / GL / Financial Strategy	2016/17		Green	Fin/Gov		Recent audit

## Appendix B- Auditable Areas

Service Area	Auditable Area / System (DD = Due Diligence)	Last audited	Last Opinion	Assurance Map Rating (2018)	Audit Risk Assessment (2018)	Included in 2018/19 Plan	Comments
Chief Finance Officer	Insurance	2011/12		Green	Fin/Gov		19-20
Chief Finance Officer	Creditors	2017/18		Amber	Fin/Gov		Recent audit
Chief Finance Officer	Debtors	2017/18		Green	Fin/Gov		Recent audit
Chief Finance Officer	Risk Management	2017/18		Green	Fin/Gov	Yes	
Chief Finance Officer	TOFS (Incl Commercialism)	2016/17		Amber	Amber	Yes	
Chief Finance Officer	Revenues - Shared Service	2016/17		Green	Amber		
Chief Finance Officer	Revenues- NNDR	2017/18		Green	Fin/Gov		Recent audit
Chief Finance Officer	Revenues-Ctax	2017/18		Green	Fin/Gov		Recent audit
Chief Finance Officer	Revenues-Recovery	2016/17		Green	Fin/Gov		Recent audit
Chief Finance Officer	Benefits <i>Welfare reform</i> <i>Welfare advice</i>	2017/18		Green	Fin/Gov	Yes	Universal Credit / Welfare reform
Chief Finance Officer	Counter Fraud	2016/17		Amber	Fin/Gov	Yes	Annual
Chief Finance Officer	Asset Register	2014/15		Green	Fin/Gov		Ext Audit Assurance
Chief Finance Officer	VAT	2010/11		Green	Fin/Gov		19-20
Chief Finance Officer	Treasury Management	2016/17		Green	Fin/Gov		Recent audit



## Appendix B- Auditable Areas

Service Area	Auditable Area / System (DD = Due Diligence)	Last audited	Last Opinion	Assurance Map Rating (2018)	Audit Risk Assessment (2018)	Included in 2018/19 Plan	Comments
Chief Finance Officer	Bank	2014/15		Green	Fin/Gov	Yes	
Chief Finance Officer	Small Business Support			Green	Amber	Yes	Terrace/ MWS income
Chief Finance Officer	Property Services <i>Facilities management</i>	2014/15		Green	Amber	Yes	Commercial property income
Chief Finance Officer	Asset Rationalisation / AMP	2017/18		Amber	Fin/Gov	Yes	Recent audit
AD Strategic Development	Business Strategy / Vision 2020	2017/18		Green	Amber	Yes	Project level
AD Strategic Development	Performance	2016/17		Green	Fin/Gov		Recent audit
AD Strategic Development	Social Policy (Anti-Poverty / Community Cohesion)	2012/13		Green	Amber		Consider part of BS above

201

## Appendix B- Auditable Areas

202

Service Area	Auditable Area / System (DD = Due Diligence)	Last audited	Last Opinion	Assurance Map Rating (2018)	Audit Risk Assessment	Included in 2017/18 Plan	Comments
AD Strategic Development	Consultation and engagement			Green	Amber		
AD Strategic Development	Partnership management	2010/11		Amber	Fin/Gov	Yes	Was 17/18
AD Strategic Development	Business Development and ICT <i>Infrastructure/security Projects and programmes Strategy Legal compliance Applications`</i>	2017/18		Green	Fin/Gov	Yes	Applications Projects Strategy Security
AD Strategic Development	Customer Services <i>(Incl workflow) Complaints Travel pass admin Build security</i>	2017/18		Green	Amber		
AD Strategic Development	Business Continuity and EP	2009/10 2017/18		Amber	Fin/Gov	Yes	IT DR follow up
AD Strategic Development	Projects and programme management	2017/18		Amber	Fin/Gov	Yes	See Plan
AD Strategic Development	Equality and Diversity	2010/11		Green	Fin/Gov	Yes	
AD Strategic Development	Corporate Governance	2017/18		Green	Fin/Gov	Yes	Ethics
AD Strategic Development	Communications			Green	Amber		
<b>Strategic Director – Housing &amp; Regeneration</b>							
AD Housing	Housing Strategy			Green (V2020)	Red	Yes	Vision 2020

## Appendix B- Auditable Areas

AD Housing	Housing Company			Green	Red	Yes	Part of new build below
AD Housing	Affordable Housing			See Housing Strategy	Amber		See Housing Strategy
AD Housing	HRA Business plan	2012/13		Green	Red		19-20
AD Housing	HRA/Landlord Services (Tenancy) various – caretaking / rech repairs	2017/18		Green	Red		Recent audit
AD Housing	HRA/Landlord Services - Rent collection	2016/17		Green	Fin/Gov		Recent audit
AD Housing	Housing Needs (Sheltered/supported)	2011/12		Green	Amber		
AD Housing	Business Support	2012/13		Green	Amber		
AD Housing	Property Shop/ Choice based lettings/allocations	2016/17		Red	Red	Yes	New system+ follow up
AD Housing	Homelessness	2009/10		Red	Red		19-20
AD Housing	Control Centre	2016/17		Green	Amber		
AD Housing	Housing Repairs Service <i>Voids</i> <i>Fleet</i> <i>H/safety</i> <i>IT</i> <i>Stores</i> <i>Fuel poverty</i>	2017/18		Green	Amber	Yes	Voids  External Contracts  Aids and Adaptations Rechargeable repairs
AD Housing	Housing Investment – Planned Maintenance	2017/18		Green	Amber		
AD Housing	Housing Investment – New build	2016/17		Green	Amber	Yes	

## Appendix B- Auditable Areas

	<i>Housing Company</i>			Green	Amber		
AD Housing	Safeguarding	2015/16		Green	Amber		
AD Housing	Council house sales			Green	Amber	Yes	
<b>Strategic Director – Communities &amp; Environment</b>							
Planning Manager	Planning (Joint Strategic Planning)	2014/15		Green	Amber	Yes	Policy/CIL
Planning Manager	Planning (Development Management) (CIL-12) (10) <i>Planning (S106) (8)</i> <i>Geographical Information System (GIS)</i>	2015/16		Green	Red	Yes	Policy/CIL
Planning Manager	Land charges and searches			Green	Amber		
Planning Manager	Building Control	2012/13		Amber	Amber		19/20
Planning Manager	Planning (Heritage)			Green	Amber		
AD Communities & Street Scene	Public Protection	2012/13		Green	Amber		19/20
AD Health & Environmental Services	Licensing	2011/12		Green	Amber		19/20
AD Communities & Street Scene	CCTV	2009/10		Green	Amber	Possible	
AD Communities & Street Scene	Parks & Open Spaces & Allotments	2012/13		Green	Amber		
AD Communities & Street Scene	Boultham Park	2017/18 (project)		Green	Amber		
AD Communities & Street Scene	Street Cleansing	2015/16		Green	Amber		

204

## Appendix B- Auditable Areas

205

Service Area	Auditable Area / System (DD = Due Diligence)	Last audited	Last Opinion	Assurance Map Rating	Audit Risk Assessment	Included in 2018/19 Plan	Comments
AD Communities & Street Scene	Grounds Maintenance	2015/16		Green	Amber		
AD Communities & Street Scene	Refuse and recycling	2015/16		Green	Amber		
AD Communities & Street Scene	Public Conveniences	2017/18		Green	Green		
AD Communities & Street Scene	Car Parks	2017/18		Green	Amber		
AD Communities & Street Scene	Bus Station	2017/18		Green	Amber		
AD Communities & Street Scene	Strategic Waste Management			Amber	Amber		
AD Health & Environmental Services	Environmental Protection			Green	Amber		
AD Health & Environmental Services	Pollution Control			Green	Amber		
AD Health & Environmental Services	Food safety	2012/13		Green	Amber		19/20
AD Health & Environmental Services	Health & Safety <i>Other public health</i> <i>External enforcement H/S</i>	2016/17		Amber	Fin/Gov		Recent audit  (NB See Housing)
AD Health & Environmental Services	Private Sector Housing <i>Empty homes</i> <i>DFG</i>	2017/18		Amber	Amber	Yes	Heating Grants
AD Health & Environmental Services	Community Centres			Green	Amber		
AD Health & Environmental Services	Sport and Leisure (pitches )	2015/16		Amber	Amber		

## Appendix B- Auditable Areas

AD Health & Environmental Services	Crematorium and Cemeteries	2014/15		Green	Amber		
AD Health & Environmental Services	Events, Culture and Tourism	2014/15		Amber	Amber		
AD Health & Environmental Services	Neighbourhood working	2011/12		Amber	Amber		
AD Health & Environmental Services	Central Market			Amber	Amber		
<b>Major Development Director</b>							
	Growth strategy / key projects / investments (large business enquiries, promotion of the city, markets, urban extensions, master plan, renewal area strategy)			Green	Red	Yes	
	Supporting strategic infrastructure projects			Green	Amber	Yes	
	Transport Hub	2017/18		Green	Amber		
	Western Growth Corridor	2017/18		Amber	Red	Yes	

<b>SUBJECT:</b>	<b>AUDIT COMMITTEE WORK PROGRAMME</b>
<b>REPORT BY:</b>	<b>AUDIT MANAGER</b>
<b>LEAD OFFICER:</b>	<b>JOHN SCOTT, AUDIT MANAGER</b>

**1. Purpose of Report**

1.1 To provide details of the draft Audit Committee work programme for 2017/18

**2. Executive Summary.**

2.1 The Audit Committee approves a work programme each year and monitors progress.

**3. Details**

3.1 The proposed work programme is attached at Appendix A. The frequency of meetings has been reviewed and is considered appropriate for 2017/18.

**4. Organisational Impacts** (nb. Finance, Legal and E & D sections below are mandatory, others to be completed only where there is an impact)

4.1 Finance (including whole life costs where applicable)

There are no direct financial implications arising as a result of this report.

4.2 Legal Implications including Procurement Rules

There are no direct legal implications arising as a result of this report.

4.3 Equality, Diversity & Human Rights (including the outcome of the EA attached, if required)

There are no direct E and D implications arising as a result of this report.

**5. Recommendation**

5.1 The Audit Committee should comment on and agree the work programme for 2017/18.

**Key Decision** No

**Do the Exempt Information Categories** No

**Apply?**

**Call in and Urgency:** Is the decision one to which Rule 15 of the Scrutiny Procedure Rules apply?

No

**How many appendices does the report contain?**

One

**List of Background Papers:**

None

**Lead Officer:**

Audit Manager Telephone 873321



## AUDIT COMMITTEE AUDIT WORK PROGRAMME FOR 2017/18

Meeting dates	Audit Items	Training (Suggested)	Comments
18 <sup>th</sup> July 2017	<ul style="list-style-type: none"> <li>• Internal Audit Progress report</li> <li>• Statement of Accounts</li> <li>• Annual Governance Statement (Draft review)</li> <li>• Audit Committee Work Programme</li> <li>• Annual Internal Audit Report</li> <li>• 12 month Fraud and Error report</li> </ul>	<ul style="list-style-type: none"> <li>• Audit Committee effectiveness (new members)</li> <li>• Local Government Financial Statements explained</li> <li>• Annual Governance Statement/Corporate Governance (Part of Meeting)</li> </ul>	
19 <sup>th</sup> September 2017	<ul style="list-style-type: none"> <li>• Statement of Accounts / Annual Governance Statement (Final)</li> <li>• Annual Governance Report / Auditors Report (External Audit)</li> <li>• Internal Audit progress report</li> <li>• Audit Committee Work Programme</li> <li>• Information Governance – update report</li> <li>• Peer review - update report</li> <li>• Annual Governance Statement monitoring report</li> <li>• Annual Complaints report</li> </ul>		

<p><b>19 December 2017</b></p>	<ul style="list-style-type: none"> <li>• Annual Audit Letter (External Audit)</li> <li>• Internal Audit progress report</li> <li>• Six Month Fraud and Error report</li> <li>• Annual Governance Statement - monitoring</li> <li>• Audit Committee Work Programme</li> <li>• Appointment of External Auditor</li> <li>• Counter fraud policies</li> <li>• Information Governance Update</li> <li>• Appointment of External Auditor</li> <li>• Review of the Constitution-Financial Procedures Rules</li> </ul>	<ul style="list-style-type: none"> <li>• Counter Fraud</li> </ul>	
<p><b>13 Feb 2018</b></p>	<ul style="list-style-type: none"> <li>• Internal Audit Progress report</li> <li>• Treasury management policy and strategy (consultation prior to approval by Council)</li> <li>• Audit Committee Work Programme</li> <li>• External Audit annual report on grants and returns</li> <li>• Code of Corporate Governance update report</li> <li>• External Audit Plan</li> <li>• Draft Internal Audit plan 18-19</li> </ul>	<ul style="list-style-type: none"> <li>• Treasury Management</li> </ul>	

<p>27 Mar 2018</p>	<ul style="list-style-type: none"> <li>• Internal Audit Progress report</li> <li>• External Audit Plan</li> <li>• Combined Assurance report</li> <li>• Annual Governance Statement –update</li> <li>• Final Internal Audit Strategy and Plan 18-19</li> <li>• Risk Management Strategy / annual report</li> <li>• Statement on Accounting Policies</li> <li>• Audit Committee Work Programme</li> <li>• External Audit Inquiries – 17/18 Statement of Accounts</li> <li>• IAS19 – Assumptions used to calculate pension entries in the Statement of Accounts and Audit Regulations</li> <li>• Review of the effectiveness of Internal Audit and Audit Committee</li> <li>• Terms of Reference review – Internal Audit</li> <li>• Terms of Reference review Audit Committee</li> </ul>		
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*A private meeting between the Audit Committee and internal and external audit managers can be arranged outside of the meeting agenda times.*

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