AUDIT COMMITTEE

Wednesday, 18th January, 2017

at 6.30 pm

Room 102, Hackney Town Hall, Mare Street, London E8 1EA

Committee Membership

Cllr Brian Bell (Vice-Chair)
Cllr Robert Chapman
Cllr Michelle Gregory
Cllr Sem Moema
Cllr Nick Sharman (Chair)
Cllr Carole Williams

Tim Shields
Chief Executive

Contact:
Peter Gray
Governance Services Officer
Tel: 020 8356 3503
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The press and public are welcome to attend this meeting

Hackney

AGENDA
Wednesday, 18th January, 2017

ORDER OF BUSINESS

Access and Information

Location

Hackney Town Hall is on Mare Street, bordered by Wilton Way and Reading Lane, almost directly opposite Hackney Picturehouse.

Trains – Hackney Central Station (London Overground) **–** Turn right on leaving the station, turn right again at the traffic lights into Mare Street, walk 200 metres and look for the Hackney Town Hall, almost next to The Empire immediately after Wilton Way.

Buses 30, 48, 55, 106, 236, 254, 277, 394, D6 and W15.

Facilities

There are public toilets available, with wheelchair access, on the ground floor of the Town Hall.

Induction loop facilities are available in the Committee Rooms and the Council Chamber

Access for people with mobility difficulties can be obtained through the ramp on the side to the main Town Hall entrance.

Copies of the Agenda

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Council & Democracy- www.hackney.gov.uk

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RIGHTS OF PRESS AND PUBLIC TO REPORT ON MEETINGS

Where a meeting of the Council and its committees are open to the public, the press and public are welcome to report on meetings of the Council and its committees, through any audio, visual or written methods and may use digital and social media providing they do not disturb the conduct of the meeting and providing that the person reporting or providing the commentary is present at the meeting.

Those wishing to film, photograph or audio record a meeting are asked to notify the Council's Monitoring Officer by noon on the day of the meeting, if possible, or any time prior to the start of the meeting or notify the Chair at the start of the meeting.

The Monitoring Officer, or the Chair of the meeting, may designate a set area from which all recording must take place at a meeting.

The Council will endeavour to provide reasonable space and seating to view, hear and record the meeting. If those intending to record a meeting require any other reasonable facilities, notice should be given to the Monitoring Officer in advance of the meeting and will only be provided if practicable to do so.

The Chair shall have discretion to regulate the behaviour of all those present recording a meeting in the interests of the efficient conduct of the meeting. Anyone acting in a disruptive manner may be required by the Chair to cease recording or may be excluded from the meeting. Disruptive behaviour may include: moving from any designated recording area; causing excessive noise; intrusive lighting; interrupting the meeting; or filming members of the public who have asked not to be filmed.

All those visually recording a meeting are requested to only focus on recording councillors, officers and the public who are directly involved in the conduct of the meeting. The Chair of the meeting will ask any members of the public present if they have objections to being visually recorded. Those visually recording a meeting are asked to respect the wishes of those who do not wish to be filmed or photographed. Failure by someone recording a meeting to respect the wishes of those who do not wish to be filmed and photographed may result in the Chair instructing them to cease recording or in their exclusion from the meeting.

If a meeting passes a motion to exclude the press and public then in order to consider confidential or exempt information, all recording must cease and all recording equipment must be removed from the meeting room. The press and public are not permitted to use any means which might enable them to see or hear the proceedings whilst they are excluded from a meeting and confidential or exempt information is under consideration.

Providing oral commentary during a meeting is not permitted.

ADVICE TO MEMBERS ON DECLARING INTERESTS

Hackney Council's Code of Conduct applies to **all** Members of the Council, the Mayor and co-opted Members.

This note is intended to provide general guidance for Members on declaring interests. However, you may need to obtain specific advice on whether you have an interest in a particular matter. If you need advice, you can contact:

- The Director, Legal;
- The Legal Adviser to the committee; or
- Governance Services.

If at all possible, you should try to identify any potential interest you may have before the meeting so that you and the person you ask for advice can fully consider all the circumstances before reaching a conclusion on what action you should take.

1. Do you have a disclosable pecuniary interest in any matter on the agenda or which is being considered at the meeting?

You will have a disclosable pecuniary interest in a matter if it:

i. relates to an interest that you have already registered in Parts A and C of the Register of Pecuniary Interests of you or your spouse/civil partner, or anyone living with you as if they were your spouse/civil partner;

ii. relates to an interest that should be registered in Parts A and C of the Register of Pecuniary Interests of your spouse/civil partner, or anyone living with you as if they were your spouse/civil partner, but you have not yet done so; or

iii. affects your well-being or financial position or that of your spouse/civil partner, or anyone living with you as if they were your spouse/civil partner.

2. If you have a disclosable pecuniary interest in an item on the agenda you must:

i. Declare the existence and nature of the interest (in relation to the relevant agenda item) as soon as it becomes apparent to you (subject to the rules regarding sensitive interests).

ii. You must leave the room when the item in which you have an interest is being discussed. You cannot stay in the meeting room or public gallery whilst discussion of the item takes place and you cannot vote on the matter. In addition, you must not seek to improperly influence the decision.

iii. If you have, however, obtained dispensation from the Monitoring Officer or Standards Committee you may remain in the room and participate in the meeting. If dispensation has been granted it will stipulate the extent of your involvement, such as whether you can only be present to make representations, provide evidence or whether you are able to fully participate and vote on the matter in which you have a pecuniary interest.

3. Do you have any other non-pecuniary interest on any matter on the agenda which is being considered at the meeting?

You will have 'other non-pecuniary interest' in a matter if:

i. It relates to an external body that you have been appointed to as a Member or in another capacity; or

ii. It relates to an organisation or individual which you have actively engaged in supporting.

4. If you have other non-pecuniary interest in an item on the agenda you must:

i. Declare the existence and nature of the interest (in relation to the relevant agenda item) as soon as it becomes apparent to you.

ii. You may remain in the room, participate in any discussion or vote provided that contractual, financial, consent, permission or licence matters are not under consideration relating to the item in which you have an interest.

iii. If you have an interest in a contractual, financial, consent, permission or licence matter under consideration, you must leave the room unless you have obtained a dispensation from the Monitoring Officer or Standards Committee. You cannot stay in the room or public gallery whilst discussion of the item takes place and you cannot vote on the matter. In addition, you must not seek to improperly influence the decision. Where members of the public are allowed to make representations, or to give evidence or answer questions about the matter you may, with the permission of the meeting, speak on a matter then leave the room. Once you have finished making your representation, you must leave the room whilst the matter is being discussed.

iv. If you have been granted dispensation, in accordance with the Council's dispensation procedure you may remain in the room. If dispensation has been granted it will stipulate the extent of your involvement, such as whether you can only be present to make representations, provide evidence or whether you are able to fully participate and vote on the matter in which you have a non pecuniary interest.

Further Information

Advice can be obtained from Yinka Owa Director of Legal on 020 8356 6234 or email Yinka.Owa@hackney.gov.uk

FS 566728

Hackney

AUDIT COMMITTEE

WEDNESDAY, 21ST SEPTEMBER, 2016

Present: **Councillors:**

Cllr Nick Sharman in the Chair
Cllr Brian Bell (Vice-Chair),
Cllr Robert Chapman and Cllr Michelle Gregory

Officers: Tracey Barnett, Michael Honeysett, Rob Miller, Carole Murray, Patricia Narebor, Nish Popat, Matt Powell, Michael Sheffield, Ian Williams

1 THANKS TO JACKIE DALLY

1.1 The Committee heard that Jackie Dally was leaving the Council at the end of the week. The Chair asked that the Committee's thanks be passed on to Jackie for her work in supporting the Committee.

2 APOLOGIES FOR ABSENCE

2.1 There were no apologies for absence.

3 DECLARATIONS OF INTEREST

3.1 There were no declarations of interest.

4 MINUTES OF THE PREVIOUS MEETING

4.1 The minutes of the meeting held on 9th June 1916 were agreed as a correct record.

4.2 Matters Arising

4.2.1 The chair emphasised difficulties around measuring the success of the Olympic games in terms of benefits derived by local people. It was suggested that the chair meet with Kim Wright and Ian Williams to review this.

ACTION: Ian Williams

4.2.2 Ian Williams agreed to follow up with Kim Wright on benchmarking information on repairs and contractors monitoring information. The Chair emphasised the need to establish a flow of information of these.

5 ICT UPDATE BRIEFING REPORT

5.1 The Chair advised the Committee that he had met with Rob Miller, Director of ICT, concerning the risks ICT held for the Council. As a result of this he had asked Rob Miller to attend the Committee to provide an update on the IT service including ICT risk and his first impressions. Rob introduced himself with a brief account of his employment history and highlighted the areas in paragraph 5.1 of the report concerning 'Disaster Recovery' and 'Third Party Access'. Planned activity was in place on recovery. In relation to Third Party Access the council was looking at its processes and finding more sophisticated ways to maintain systems and have an effective oversight.

5.2 The Chair expressed concerns around difficulties in recruitment to ICT and asked whether risks around loss of staff had been investigated. Rob Miller told the Committee that recruitment would be included in the next audit plan. Further, ICT salaries and roles were currently being reviewed. He confirmed that there were substantial numbers of agency staff currently working at the Council and that he had concerns about maintaining a sustainable team. However, certain initiatives were available such as promoting Hackney as a place to work.

5.3 Cllr Gregory asked if there were data reports on the use of the Council's website, system outage and the digital strategy. Rob Miller confirmed that there was a lot of very good data available and that this had been considered by the Scrutiny Commission. He was working closely with all the directorates on the overall digital strategy. There was a clear strategy to provide high quality online services although this would be providing additional service rather than removing an existing service. Work was being carried out as part of the service. For example, Michael Scorer, the Interim Director of Housing, was working with ICT on a digital strategy for housing services. Rob Miller highlighted paragraph 6 of the report which set out the review of the ICT strategic direction. He told the Committee that he had consulted widely to ascertain feedback on the IT service. He referred to the implications for residents of the Borough and how work was carried out. There was to be a move to the use of tablets and mobile phones. A staff survey was to be undertaken to ascertain staff expectations. He further referred the Committee to ICT's key strategic priorities.

5.4 Carole Murray told the Committee that any issues which had been highlighted through internal audit had resulted in five pieces of work to be undertaken from September through to March. It was suggested that a further update therefore be brought to Committee in April.

RESOLVED to note the contents of the report and that a further update be made to the Committee in April 2017.

6 FINANCIAL STATEMENTS AUDIT 2015/16 - ANNUAL GOVERNANCE REPORT (COUNCIL & PENSION FUND)

6.1 Ian Williams introduced the report as set out and thanked the finance team and the external auditors for their work and congratulated them for meeting the earlier deadline. He confirmed that the council was in a good financial position.

6.2 The Auditors told the Committee that there were no significant adjustments to be made and that they were confident that an unqualified audit opinion would be sent by 30 September.

6.3 Cllr Sharman asked whether the risks outlined in the financial statements matched those in the Corporate Risk Register. The auditors confirmed that there was a link and that there were appropriate procedures in place for reporting and monitoring. They confirmed that officers had a strong overview of the Council's financial position.

6.4 The auditors confirmed that they were independent and also that the representation letter would be standard with no additions.

6.5 Cllr Chapman asked for clarification on sustainable deployment. The auditors told the Committee that this related to financial sustainability and although it was not an issue in Hackney it was an important area which the auditors reviewed. Any associated risks were captured in the Corporate Risk Register.

6.6 The Chair noted that considerable savings had already been made but that more were required and that this may impact on core services. The auditors agreed that finding savings would become more difficult and that hard decisions would need to be made. However, Hackney did have reasonable reserves and was in a relatively good position. He stressed the need to encourage 'value for money assessments.

6.7 Cllr Gregory emphasised that long term debt had not been highlighted in the financial statements and asked if levels were of concern. The auditors said that both debtors and creditors were managed appropriately by the finance team.

6.8 Nish Popat told the Committee that good progress had been made with the accounts. Officers were confident that the accounts would be closed by the end of May in 2017.

RESOLVED to note the report.

7 STATEMENT OF ACCOUNTS 2015/16

7.1 Nish Popat introduced the report as set out. Cllr Bell congratulated the team for meeting the revised deadline. Cllr Gregory asked about the volume of long term debtors and Michael Honeysett agreed to provide a breakdown of these figures.

ACTION: MICHAEL HONEYSETT

7.2 Ian Williams told the Committee that council tax was the largest debt and the team were spending much time in chasing and collecting historic debt. This process was made more difficult by the transient nature of the young population in Hackney. He reported that in respect of Universal Credit, the debt was nowhere near the level predicted.

7.4 The Chair congratulated the team and the auditors for meeting the deadline.

RESOLVED:

1. To approve the 2015/16 Statement of Accounts prior to the audit opinions being issued.

2. To approve, in its own right, the Annual Governance Statement contained within the Statement of Accounts.

8 CORPORATE RISK REGISTER REVIEW - SEPTEMBER 2016

8.1 Ian Williams introduced the report as set out. Matt Powell provided further explanation. He referred the Committee to notable risks such as the impact of the economic downturn, pensions, Brexit and risks in ICT. The Chair noted that the new additional risks were clearly red and many of the action dates were set for the end of November. The Committee asked for assurance that the risks were being carefully monitored and that an assessment update be provided. Ian Williams agreed to arrange an informal session on risk in the Council.

ACTION IAN WILLIAMS

8.2 Cllr Bell asked for clarification on risk in the areas of regeneration and Housing, high value properties in the Borough and implications of Planning Acts. Ian William told the committee that HMT and Cabinet were very much aware of these risks. However, the regulations around the Housing and Planning Act had not yet been finalised. A working group had been set up in readiness for when these become available. All the regeneration assessments took account of the Housing and Planning Act risks.

8.3 Cllr Chapman asked about the extent of risk to the workforce given the restructures and savings packages. He considered that members were noticing the impact despite everyone working well to overcome this.

8.4 Ian Williams told the Committee that the Change for Everyone initiative reflected the need to work in different ways. Risks had increased around recruiting and retaining staff given the increased costs of living and travel. Cllr Taylor said that the budget had been rightsized and it may be necessary to review Council Tax as any further cuts would noticeably impact on services. Cllr Chapman asked if this had been adequately reflected in the risk register and Ian Williams confirmed that it had. The chair said it was important to monitor this closely.

8.6 Cllr Gregory asked if any staff surveys had been undertaken recently. Ian Williams told the Committee that a survey was due in the next few months and the results of it would be reported back.

8.7 The Committee expressed concern that contract management was still showing red and whether there was anything more the Committee could do on this. Cllr Gregory said that the Committee hadn't seen the measures put in place to manage contract management and asked if there were adequate resources to do this. Tracey Barnett agreed to circulate audit reports on contract management and liaise with Kim Wright to discuss what controls are in place.

8.8 Ian Williams reported that Housing Market and the Footsie had recovered and that there would be implications for the Council following changes to exchange rates as a result of Brexit.

ACTION – RESPONSE FROM KIM WRIGHT ON CONTRACT MANAGEMENT

RESOLVED to note the contents of the report and the attached risk registers and controls in place.

9 CORPORATE RISK MANAGEMENT ANNUAL REPORT 2015/16

9.1 Tracey Barnett introduced the report as set out. The Annual Report had been compiled under the old regime and in the future, it would be different to reflect the high risks of so much change. The Committee requested more detail and Tracey Barnett said she would review the audit reports and circulate confidentially the findings and measures.

ACTION – TRACEY BARNETT AND KIM WRIGHT

9.2 The Chair asked for clarification on the housing regeneration income issues. Tracey Barnett said that this reflected the Brexit issue but that the housing market had since revived. There were risks around exchange rates and import/export costs as a result of Brexit.

RESOLVED to note the contents of the report.

10 CORPORATE RISK MANAGEMENT POLICY AND STRATEGY REVIEW 2016

10.1 Matt Powell introduced the Risk Management Strategy as set out and provided an overview to the Committee.

10.2 Cllr Bell queried some of the terminology such as “peace of mind” and Matt Powell said that this could be addressed.

10.3 Cllr Chapman asked how the strategy was used in practice and how it was integrated into management.

10.4 Ian Williams said that risk management strategy was on the agenda for divisional management team meetings and divisional team meetings and was a live document. Risk assessment was part of performance management and Matt Powell worked closely with the performance management teams.

10.5 The Chair asked about mechanisms for the review the performance data. Ian Williams said that he and Cllr Taylor received monthly suites of data and that the performance framework was owned by the Corporate Management Team and Cabinet. The Chair emphasised that the risk management strategy should be an active item on the management agenda and asked that the performance framework be kept under review.

RESOLVED to approve and ratify the contents of the report and the attached Policy and Strategy.

11 AUDIT & ANTI FRAUD PROGRESS REPORT SEPTEMBER 2016

11.1 Tracey Barnett introduced the report as set out. Cllr Chapman referred to paragraph 3.1 of the Audit and Anti-fraud progress report and noted that 32% complete or in progress at the end of august in relation to ensuring that services provided VFM seemed low. Carole Murray said that it was being monitored and was on track. However, some of the audits may roll over into the next financial year.

11.2 Michael Sheffield told the Committee there was a wide variety of investigations underway and that the time it took to resolve these varied. Cllr Chapman asked how the team monitored the cases. Michael Sheffield said that regular case reviews were carried out.

11.3 The Chair asked that this service be monitored closely particularly with the reorganisations to ensure that targets continued to be met.

RESOLVED to note Audit and Anti Fraud's progress and performance to August 2016.

12 TREASURY MANAGEMENT UPDATE

12.1 Michael Honeysett introduced the report as set out. He referred the Committee to Brexit and its effect on interest rates. He said there would be an impact on potential borrowing. The Council now had £3.6m in external borrowing. Investment balances as at 31 August had increased to £208,053. This presented a secure position. Cllr Chapman asked for clarification on internal borrowing. Ian Williams told the Committee that internal borrowing stood at £300m and this was backed by capital receipts and other reserves

12.2 Cllr Taylor said that it was important to recognise that not only were there risks but also opportunities and improvements could be made in identifying and taking opportunities when they presented themselves. The Chair stressed the need to support funding of appropriate risk with the culture and staff to manage it. He considered that the Audit Committee needed to create a framework for this.

RESOLVED to note the contents of the report.

13 WORK PROGRAMME

13.1 To note the work programme.

14 DATE OF FUTURE MEETINGS 18 JANUARY 17 AND 20 APRIL 17

Duration of the meeting: 6.30 – 8.45

Chair at the meeting on
Wednesday, 21 September 2016

Hackney

Certification of Grants and Returns

AUDIT COMMITTEE **MEETING DATE 2016/17** **18 January 2017**	**CLASSIFICATION:** **Open** **If exempt, the reason will be listed in the main body of this report.**
WARD(S) AFFECTED **All Wards**	
GROUP DIRECTOR **Ian Williams Group Director Finance & Corporate Resources**	

1. INTRODUCTION

This report summarises the results of the work carried out by the Council's external auditors, KPMG, in respect of the 2015/16 grants claims and returns, the details of which are included in the appendix to the report.

2. RECOMMENDATION(S)

The Audit Committee is recommended to:

Note the contents of the attached letter from the Council's external auditors.

3. REASONS FOR DECISION

The Accounts and Audit Regulations 2015 place obligations on the Council to ensure that its financial management is adequate and effective and that it has a sound system of internal control. Consideration of the Council's management of grant claims and returns by the Audit Committee is in accordance with this statutory obligation and within the Committee's remit to consider specific reports as agreed with the external auditor.

4. BACKGROUND

4.1 Policy Context

Not applicable

4.2 Equality Impact Assessment

Not applicable

4.3 Sustainability

Not applicable

4.4 Consultations

Not applicable

4.5 Risk Assessment

It is imperative that claims and returns are completed both on a timely and accurate basis in order that funding associated with those returns is received by the Council as expected, particularly in the present financial climate when external funding from the government continues to be reduced significantly. The processes and controls in place for the completion and submission of grant claims and returns ensure that deadlines are met and that the quality of submission is maintained.

5. COMMENTS OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES

There are no direct financial implications arising from this report as it refers to the previous financial year. It is worth noting however that the actual fees for the certification of grants and returns totalled £45,616 and were in line with the indicative fee previously set out by the auditors. This compares to fees of £52,840 in the previous year in respect of the claims and returns certified..

6. COMMENTS OF THE DIRECTOR OF LEGAL

6.1 The Accounts and Audit Regulations 2015 place obligations on the Council to ensure that its financial management is adequate and effective and that it has a sound system of control which includes arrangements for the management of risk.

6.2 The Council is also responsible for the proper and accurate preparation of claims and returns. Consideration of the Council's management of grant claims and returns by the Audit Committee is in accordance with the obligation.

6.2 There are no immediate legal obligations arising from the report.

7. 2015/16 CLAIMS AND RETURNS

7.1 As set out above, the report from the Council's external auditors attached as an Appendix to this report provides a summary of the work carried out In relation to auditable claims and returns during 2015/16.

7.2 In total, 3 grant claims and returns required certification by an external auditor. The largest of these, in respect of the Council's Housing Benefit subsidy claim, was carried out by KPMG under the Public Sector Audit Appointment arrangements. The remaining 2, Pooling of Housing Capital Receipts and the Teachers' Pensions Return were also carried out by KPMG but under separate specific engagements.

7.3 There are a number of other grant claims and returns required throughout the year but they do not require separate audit certification. The Council does however use the same internal process for officer certification of these claims in order to ensure timeliness and accuracy of all claims.

7.4 As set out in the auditor's report, whilst once again no specific recommendations are made by the auditors, they have noted that there were more errors identified during the completion of the Housing Subsidy, reversing the previous trend of recent years.

7.5 The changes or qualification made to the claims and returns have not resulted in any change to the income due to the Council or additional costs.

APPENDICES

Report from KPMG re Certification of claims and returns – annual report 2015/16

BACKGROUND PAPERS

In accordance with The Local Authorities (Executive Arrangements) (Meetings and Access to Information) England Regulations 2012 publication of Background Papers used in the preparation of reports is required

None

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Annual Report on grants and returns 2015/16

London Borough of Hackney

—

January 2017

Contents

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

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 Sayers, the engagement lead to the Authority and the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, who will try to resolve your complaint. After this, 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, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

Headlines

Introduction and background

This report summarises the results of work we have carried out on the Council's 2015/16 grant claims and returns.

This includes the work we have completed under the Public Sector Audit Appointment certification arrangements, as well as the work we have completed on other grants/returns under separate engagement terms. The work completed in 2015/16 is:

- Under the Public Sector Audit Appointments arrangements we certified one claim – the Council's 2015/16 Housing Benefit Subsidy claim. This had a value of £311 million
- Under separate assurance engagements we certified two returns as listed below.
  - Pooling of Housing Capital Receipts return (value £35 million); and
  - Teachers' Pensions EOYCa return (value £16 million).

Certification and assurance results (Pages 4 - 5)

Our certification work on Housing Subsidy Benefit claim included:

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

Following the completion of our work, the claim was subject to a qualification letter. No amendments have been made to the claim for the issues raised in our qualification letter.

Our work on the other grant assurance engagements resulted in an unqualified Reporting Accountants' independent reasonable assurance report. Three adjustments were necessary to two of the Council's returns as a result of our certification work this year:

- The Pooling of Housing Capital Receipts return had two adjustments totalling £5,711k. In the previous year, one adjustment was necessary.
- The Teachers' Pensions EOYCa return had one adjustment as a result of incorrect casting. In the previous year, no adjustments were necessary.

Recommendations

We have made no formal recommendations to the Council from our work this year. We noted that there were no recommendations raised during previous years' work on grants and returns.

Fees (Page 6)

Our fee for certifying the Council's 2015/16 Housing Benefit Subsidy grant was £38,616, which is in line with the indicative fee set by PSAA.

Our fees for the other 'assurance' engagements were subject to agreement directly with the Council and were £3,500 for the Pooling of Housing Capital Receipts return and £3,500 for the Teachers' Pensions EOYCa return.

Summary of reporting outcomes

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

- **Two were unqualified but required some amendment to the final figures; and**
- **One, the Housing benefit subsidy, required a qualification to our audit certificate.**

Detailed comments are provided overleaf.

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Detailed below is a summary of the reporting outcomes from our work on the Council's 2015/16 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
Public Sector Audit Appointments regime					
— Housing Benefit Subsidy	1	●			
Other assurance engagements					
— Pooling of Housing Capital Receipts	2			●	●
— Teachers' Pensions EOYCa	3			●	●
		1	**-**	**2**	**2**

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.

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Ref	Summary observations	Amendment
1	**Housing Benefit Subsidy** Following the completion of our work, the claim was subject to a qualification letter. No amendments have been made to the claim for the issues raised in our qualification letter. — The issues raised in the qualification letter related to testing errors identified from work undertaken on nine cells. — The qualification to the Housing Benefits claim remains extensive. There were 189 errors identified (including those resulting in an underpayment and those with no impact on subsidy). This is an increase on the prior year and reverses the recent trend of a reduction in errors identified each year (there were 102 errors in 2014/15; 117 errors in 2013/14; 149 errors in 2012/13; and 302 errors in 2011/12). — An issue was identified where easement continued to have been applied after the 26 week eligible period on a number of cases. Having reviewed all such cases, this would have resulted in a £10,500 cell adjustment. — An error was also identified in the rent allowances cell due to additional earnings disregard being incorrectly applied. Having reviewed all such cases, this would have resulted in a £5,100 cell adjustment.	**£NIL**
2	**Pooling of Housing Capital Receipts** We noted two adjustments to the return, both of which were corrected by management. — For one property, information within the attributable debt model was incorrect. Cell F112PO was amended by £36,000 as a result. — Expenditure incurred under a Section 11(6) agreement was incorrectly disclosed. Cell F520PO was amended by £5,675,000 as a result.	**£5,711k**
3	**Teachers' Pensions EOYCa** We noted one adjustment to the return in relation to casting of the form. This was corrected by management.	**£NIL**

Fees

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

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

The overall fees we charged for carrying out all our work on grants/returns in 2015/16 was £42,466.

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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 2015/16 of £38,616. Our actual fee was the same as the indicative fee, and this compares to the 2014/15 fee for this claim of £46,340, which was the PSAA indicative fee at the time.

Grants subject to other assurance engagements

The fees for our assurance work on other grants/returns are agreed directly with the Council. Our fees for 2015/16 were in line with those in 2014/15.

Breakdown of fees for grants and returns work

Breakdown of fee by grant/return		
	2015/16 (£)	2014/15 (£)
Housing Benefit Subsidy claim	£38,616	£46,340
Pooling of Housing Capital Receipts	3,500	3,000
Teachers' Pensions EOYCa	3,500	3,500
Decent Homes	n/a	3,500
Total fee	**42,466**	**56,340**

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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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Hackney

NEIGHBOURHOODS AND HOUSING RISK REGISTER REVIEW – JANUARY 2017

AUDIT COMMITTEE MEETING DATE 2016/17 **18 January 2017**	**CLASSIFICATION:** **Open** **If exempt, the reason will be listed in the main body of this report.**
WARD(S) AFFECTED **All Wards**	
GROUP DIRECTOR **Kim Wright Group Director Neighbourhoods and Housing**	

1. INTRODUCTION AND PURPOSE

1.1 This report updates members on the current Risk Register of Neighbourhoods and Housing Directorate as at January 2017. It is the first risk review report to Audit Committee of the Directorate and the report also identifies how risks within the Directorate are identified and managed throughout the financial year and our approach to embedding risk management.

1.2 This report assists the Committee in its role of overseeing corporate governance and is presented for information and comment.

2. RECOMMENDATION(S)

2.1 **The Audit Committee is recommended to note the contents of this report and the attached risk registers and controls in place.**

3. REASONS FOR DECISION

3.1 There are no decisions arising from this report

4. BACKGROUND

4.1 Risk management is fundamental to effective business management and it is vitally important that we know, understand and monitor the key risks and opportunities of the Directorate. Officers and members are then able to consider the potential impact of such risks and take appropriate actions to mitigate these as far as possible. Some risks are beyond the control of the Directorate but we nevertheless need to manage the potential impact or likelihood to ensure we deliver our key objectives to the best of our ability. For other risks, we might decide to accept that we are exposed to a small level of risk because to reduce that risk to nil is either impossible or too expensive. It will be highly unlikely, if not impossible, if there were never any red rated risk on the register. The important point is to know what they are and how they can be controlled and mitigated. The risk management process helps us to make such judgements, and as such it is important that Audit Committee is aware of this.

4.2 Equality Impact Assessment

For the purposes of this report, an Equality Impact Assessment is not applicable, although in the course of Risk Management (and associated duties) all work is carried out in adherence to the Council's Equality policies.

4.3 Sustainability

This report contains no new impacts on the physical and social environment.

4.4 Consultations

In order for Risk Registers to progress to Committee, they will already have been reviewed by the relevant Senior Management Team within the corresponding Directorate, or at overall Council level. Any senior officer with any accountability for the risks will have been consulted in the course of their reporting.

4.5 Risk Assessment

The relevant Risk Register is attached in Appendix one.

5. Directorate Approach to the Management of Risk

5.1 This is the first risk review report to Audit Committee of the new Neighbourhoods and Housing directorate. Since April the Directorate Leadership Team (DLT) has considered the risks of the directorate on a number of occasions. Our approach to managing risk within the directorate is to follow the Council's Risk Management policy and, using the Council's risk management toolkit, identify those risks that could prevent the directorate (and ultimately the Council) from achieving its key objectives.

5.2 To ensure the management of risk within the directorate is effective, our risks are aligned to our developing directorate aims and objectives, which reflect corporate and the Council's priorities. Our focus is on the "place". We want to work in a joined up way in order to create, sustain liveable neighbourhoods. Our vision is that wherever people live they have the same high quality services, the environment is just as good and their life opportunities enable then to be just as successful. The directorate approach to embedding risk management at all levels of management is to create a culture that spreads best practice, identifies and communicates lessons learnt from both internal and external experiences. This approach runs through all levels of management from the directorate risk register, monitored and managed by DLT, through the divisional risk registers, managed and monitored by the Divisional Management Teams through to team and project risk registers**.**

5.3 Effective risk management anticipates and avoid risks where possible rather than dealing with the consequences of events happening. However, not all risks can be managed, particularly those that are caused by external factors over which the Council has no control e.g. nationwide austerity measures and introduction of new legislation. These are the risks that are likely to rated high, and will require constant monitoring by senior management and escalation to Hackney Management Team (HMT) for inclusion on the Corporate Risk Register.

5.4 The risk register for Neighbourhoods and Housing Directorate is attached at Appendix 1. The Directorate Risk Register comprises risks that cut across the Directorate's business and those which have the potential greatest impact on service delivery and the performance of the Council as a whole. It is informed by the divisional and service risk registers and is maintained at Directorate level to ensure that risks are managed and monitored at senior management level.

5.5 The development of the directorate risk register risks assesses risk in light of the controls already in place so that the register would be focused on those key risks that prevent the directorate from achieving its objectives. Any risk that DLT consider significant enough will be escalated to the status of a Corporate Strategic Risk as per the Council's risk impact guidelines. All other risks will remain as Directorate risks.

6 COMMENTS OF THE GROUP DIRECTOR OF FINANCE & CORPORATE RESOURCES

6.1 Effective risk management is a key requirement for good financial management and stability. This becomes more significant as funds available to the Council are reduced and budget reductions within services are made as a result.

6.2 The Directorate seeks to mitigate risks as they are identified. In some instances, where there are volatile external factors and uncertainty, this will be through seeking access to reserves maintained by the Group Director of Corporate Finance and Resources.

6.3 There are no direct costs arising from this report.

7. COMMENTS OF THE DIRECTOR OF LEGAL SERVICES

7.1 The Accounts and Audit Regulations 2015 require the Council to have a sound system of control which includes arrangements for the management of risk. This report is part of those arrangements and is designed to ensure that the appropriate controls are effective.

7.2 There are no immediate legal implications arising from this report.

APPENDICES

Appendix 1 **Neighbourhoods and Housing Directorate Risk Register**

EXEMPT

N/A

BACKGROUND PAPERS

None

Report Author	Deirdre Worrell 020 8356 7350 Deirdre.worrell@hackney.gov.uk
Comments of the Group Director of Finance &	Deirdre Worrell 020 8356 7350 Deirdre.worrell@hackney.gov.uk

Corporate Resources	
Comments of the Group Director of Legal	Patricia Narebor 080 83562029 Patricia.narebour@hackney.gov.uk

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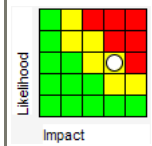
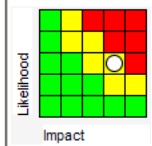
Neighbourhoods & Housing Directorate Risk Register – December 2016

Report Type: Risks Report

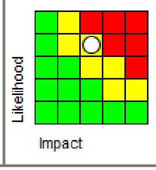
Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
NH DR 002 Workforce	The unprecedented changes in the public sector require new ways of working and a change in culture at all levels. The workforce are at risk of becoming demotivated leading to a negative atmosphere amongst workers, impacting upon service delivery and leading to dissatisfied stakeholders. Also restructures may cause temporary loss in efficiency as knowledge could be lost with experienced staff taking redundancies. Staff lack the skills set to keep up with needs of the required changes due to - A mismatch in training requirements - Training not fit for purpose - Inability to have the right number of staff with the adequate skills - Management resources are significantly diverted to deal with staff issues as opposed to strategic planning Service across the directorate struggle to effectively and successfully recruit for certain positions leading to a negative impact on service delivery.	Neighbourhood & Housing		December 2016 – Consequences of this Risk occurring might include: • Lack of strategic thinking • Lack of skill set results in failure in service provision • Service users not adequately safeguarded harmed • Opportunities missed • Inability to recruit to key positions • Staff morale impacted • Retention of staff impacted • Failure to deliver new ways of working which may impact on savings delivery

Control Title	Control Description	Responsible Officer	Service Manager	Due Date	Control - Latest Note
NH DR 002a Workforce	Directors consider workforce issues as part of business planning and HR provides a framework of processes and procedures which will support both the Directorate and its staff through a significant period of transition.	Kim Wright	All Directors	Ongoing	December 2016 - Risk reviewed and updated.

Control Title	Control Description	Responsible Officer	Service Manager	Due Date	Control - Latest Note
NH DR 002b Workforce	Established a resilient system of identifying workforce training needs using Business Partnering arrangements (whereby each Head of Service links with the Organisational Development Team) across the Directorate	All Directors	Heads of Service	Ongoing	December 2016 - Risk reviewed and updated.
HCS DR 002c Workforce	There are detailed HR procedures and processes to deal with problems/instability created by restructures and these are carefully adhered to by the teams involved. All communication is regular and carefully considered	Dan Paul	All Directors	Ongoing	December 2016 - Risk reviewed and updated.
NH DR 004d Workforce	Clear policy framework for managing employment issues along with HR standards training and support for managers on key decision making helps ensure appropriate and correct decisions are made.	Dan Paul	All Directors	Ongoing	December 2016 - Risk reviewed and updated.
HCS DR 002e Workforce	Services will work with HR/OD on the following - Recruitment strategy review to identify other measures which can be taken into to promote Hackney as a great place to work - Review salary supplements in key professions to ensure they are providing market competitive salaries - Review career development paths within the services and also ensure that apprenticeships/trainee opportunities are being used to develop internal talents	All Directors	All Heads of Service	Ongoing	December 2016 - Risk reviewed and updated.

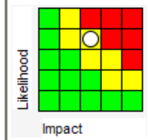
Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
NH DR 003 Service Management - Reputation	The predominantly front line activities of the Directorate are delivered under such scrutiny a small failure has a disproportionate impact on reputation of the Council. The Directorate fails to manage its services and as such an event occurs which results in a large reputation impact for the Council.	Neighbourhoods & Housing		December 2016 Consequences of this risk occurring might include: • Poor perception of the Directorate with the Council and residents. • Extra work in dealing with reputational fall-out • Adverse media attention.

Control Title	Control Description	Responsible Officer	Service Manager	Due Date	Control - Latest Note
NH DR 003a Communications and Consultation Arrangements	Communications and Consultation managed in partnership with the Council's communications teams through Heads of Services and Directors. Communications and Consultation plans are discussed and considered in partnership with Lead members on a regular basis.	Kim Wright	All Directors	Ongoing	December 2016 - Risk reviewed and updated.
NH DR 003b Programme Management and Governance	Robust programme management and governance procedures in place for Major programmes which include consultation and engagement requirement. Project Sponsor to produce a communications plan for each key project and programme to ensure effective stakeholder engagement	Kim Wright	All Directors	Ongoing	December 2016 - Risk reviewed and updated.
NH DR 003c Programme Management and Governance – Capital Projects	Robust programme management and governance procedures in place for key capital projects and programmes with project sponsorship at Director Level. Major schemes are managed via project boards to ensure reputational issues managed and project/programme outcomes delivered to required standard, on time and within budget	Kim Wright	All Directors	Ongoing	December 2016 - Risk reviewed and updated.
NH DR 003c Performance Management Framework	Robust Performance management framework in place to monitor service performance. Services are managed as part of the Council's performance management framework through the Directorate Leadership Team, divisional and operational management teams and supervision. There is a regular reporting framework on Co-valent to highlight areas of underperformance with follow up management action taken as required. There are also a range of Quality Assurance systems in place to ensure service standards are monitored and maintained.	Kim Wright	All Directors	Ongoing	December 2016 - Risk reviewed and updated.

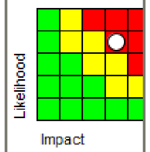
Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
NH DR 004 Management of changes in support services	The Directorate is reliant on support services within the Council to deliver effectively. The resources available in support services have been reducing and there is a potential that the Directorate does not effectively manage this reduction in support.	Neighbourhoods & Housing		December 2016 - Consequences of this risk occurring include: • Failure to deliver business objectives • Failure to make savings and balance budgets

Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
	There is a heightened risk of reducing the health and safety resource across the Council and its impact on this directorate given the proportion of manual and front line workers.			• Reduced flexibility to respond to changing priorities • Services not improved • Impact on transformational change • Delays to other work • Stress to staff • Health & Safety management is compromised

Control Title	Control Description	Responsible Officer	Service Manager	Due Date	Control - Latest Note
NH DR 004a Staff Training	Senior Managers will ensure that focused training for staff on new support service processes, such as My Budget, is provided to ensure managers are aware of and can manage any impact their roles and responsibilities	All Directors	Heads of Service	Ongoing	December 2016 - Risk reviewed and updated.
NH DR 004b Training and Development Plans	Training needs arising from the reductions in support services will be identified and built into the directorate training and development plans.	All Directors	Heads of Service	Ongoing	December 2016 - Risk reviewed and updated.
NH DR 004c Directorate Leadership Team Oversight	Directorate Leadership Team to maintain oversight of changes to support services and feedback service requirements to facilitate enable smooth transition to new arrangements	Kim Wright	All Directors	Ongoing	December 2016 - Risk reviewed and updated.
NH DR 004d Health & Safety - Policy Framework	The Council's Health & Safety policy framework, training and advisory services for team/managers ensures risk of injuries in the workplace are avoided as fully as possible.	All Directors	All Heads of Service	Ongoing	December 2016 - Risk reviewed and updated.
NH DR 004e Health & Safety – Training	All operational managers received health and safety training for managers. All employees receive health and safety awareness training appropriate to their role	All Directors	All Heads of Service	Ongoing	December 2016 – Risk reviewed and updated.
NH DR004f Financial Management – Training	Finance officers work closely with Service managers to support their decision making with timely and accurate financial information. Financial training for non-financial managers in place and risk based budget monitoring in place to identify issues, risks and opportunities to support service delivery.	Deirdre Worrell	James Newman/ Simon Theobald	Ongoing	December 2016 - Risk reviewed and updated.

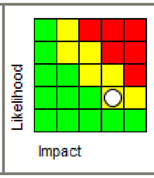
Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
NH DR 005 ICT Infrastructure	The directorate is reliant on the ICT infrastructure to deliver its services effectively. There is a risk that there is a mismatch between required needs and ICT capacity to deliver. Key factors include - Lack of understanding of ICT to keep up with business needs and an over reliance on process as opposed to outcomes. - Response times - Understanding of impact on services and priorities - Lack of identified officer in ICT i.e. for system responsibility and ownership	Neighbourhoods & Housing		December 2016 - ongoing. This may lead to: • Failure to deliver business objectives • Inability to delivery further productivity gains and the make savings required to balance budgets over the medium term • Reduced flexibility to improve services due to the ICT systems being unfit for purpose. • Inability to streamline service processes to improve service for the customer • Impact on transformation • Delays to other work • Reduction in confidence to take on changes/ability to deliver by ICT • Increase in service resource and stress to staff

Control Title	Control Description	Responsible Officer	Service Manager	Due Date	Control - Latest Note
NH DR 005a Governance arrangement for ICT Projects	Robust Governance arrangements are in place to manage ICT transformation projects with ICT expertise on project and programme boards	Kim Wright	All Directors	Ongoing	December 2016 - Risk reviewed and updated.
NH DR 005b Partnership Approach with ICT colleagues	Service managers liaise regularly with ICT colleagues to resolve system issue and introduce service improvements.	Kim Wright	All Directors	Ongoing	December 2016 - Risk reviewed and updated.
NH DR 005c Support Systems	Support systems are all in place to provide advice and back up when required for all service critical systems. This includes FAQs for customer services to enable them to support customers when the ICT systems fail.	All Directors	Head of Service	Ongoing	December 2016 - Risk reviewed and updated.
NH DR 005d Supplier Management	Service and Contract reviews regularly held and documented with all major suppliers. Business Analysts/Project Managers assigned to projects from business case development onwards. Legal services engaged during procurement process.	Directors in partnership with Rob Miller, Director ICT	Heads of Service with ICT	Ongoing	December 2016 - Risk reviewed and updated.

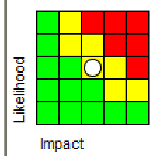
Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
NH DR 006 Housing Regeneration Programmes	Key risks which require careful management between Housing Regeneration and a range of services across the Council, including finance, procurement and planning. Major risks are associated with; • Risks around certainty of future funding, need to contain borrowing within the HRA Debt Cap • Procurement and performance related risks with developer partners, such as failing to obtain the correct agreements. • Drops in property values could have impact viability of schemes. • Managing increased risks to social cohesion associated with potential increased polarisation, greater transience and reduced housing affordability. The ongoing economic downturn poses risks to these projects that rely mainly or partly on disposal of assets or subsequent sale of newly developed sites.	Neighbourhoods & Housing		December 2016 - There are significant housing regeneration projects ongoing within the borough (including the nationally significant Woodberry Down programme), borough-wide Estate Regeneration schemes and new build affordable housing with significant borrowing requirements which, if not carefully project managed could adversely impact the Council's overall financial position.

Control Title	Control Description	Responsible Officer	Service Manager	Due Date	Control - Latest Note
NH DR 006a Housing Regeneration Programmes	Application of sound programme and project management methodology for delivery of complex programmes and projects including reporting where agreed tolerances have been exceeded, and finance assessment of business cases including those that need to be revised.	Kim Wright	John Lumley	Ongoing	December 2016 - Risk reviewed and updated.
NH DR 006b Housing Regeneration Programmes	Robust programme management and governance procedures in place for key capital projects and programmes with project sponsorship at Director Level. Major schemes are managed via project boards to ensure reputational issues managed and project/programme outcomes delivered to required standard, on time and within budget	Kim Wright	John Lumley	Ongoing	December 2016 - Risk reviewed and updated.

Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note

NH DRH 007 Contract Procurement and Management	Poor procurement decisions result in non-viable contracts being awarded to non-viable contractors. Poor contract management results in poor resident satisfaction and unjustified cost and time overruns.	Neighbourhoods and Housing.		As a result of poor contract management revenue is lost or charges applied that are not justified leading to a clear financial loss to the Council and also negative reputational consequences

Control Title	Control Description	Responsible Officer	Service Manager	Due Date	Control - Latest Note
NH DR 007a Contract Specification in place	Contracts clearly define the requirements of the business.	Stuart Davis		02-Nov-2017	December 2016 - Risk reviewed and updated.
NH DR 007b Tender Stage process followed	Robust tender process in line with EU procurement law and council standing orders.	Stuart Davis	Each Contract Manager	02-Nov-2017	December 2016 - Risk reviewed and updated.
NH DR 007c Contract Monitoring and Fraud Prevention	Restructure of Asset Management Team is based around the new contracts and clarity of responsibility for the contract managers in line with the contract manual. Key performance indicators in placed and used to manage the contracts. Final accounts prepared in a timely manner. Regular contract audit.	Michael Scorer Stuart Davis Stuart Davis Tracy Barnett	Stuart Davis Contract Managers Contract Managers Michael Sheffield	02-Nov-2017	December 2016 - Risk reviewed and updated.
NH DR 007d Review of form of Contract	The Contract options are being reconsidered to ensure that the contract form is fit for Hackney's purpose.	Michael Scorer/ Chris Hudson	Stuart Davis	02-Nov-2017	December 2016 - Risk reviewed and updated.

Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
NH DR 008 New Government policies affecting housing	The Government is introducing a number of policies affecting housing, mainly through the Housing & Planning Act. Those likely to pose the greatest risk to the Council include: - An annual 1% reduction must be applied to social housing rents in each of the next 4 years. This will have an impact in terms of the income that the Council receives to fund its housing activities, for example potentially affecting the level of investment that can be	Neighbourhoods and Housing.		December 2016: The risk matrix will be updated later in the financial year, when details of the Government's policies are known, and analysis of the impact has been completed. There have been hints from the Housing Minister that the Government may be softening its

Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
	made in building new homes. - The forced sale of 'higher-value' council homes to help fund the extension of Right to Buy to housing association tenants. This will involve the Council paying an annual levy to Government, based on assumptions about the value of homes that become vacant. The full detail of how this policy will operate is not yet known, but is expected to be published by Government by the end of 2016. It is estimated that some 700 council homes may have to be sold in the first five years of the policy. - Starter Homes: The Government is placing a duty on local planning authorities to promote the provision of Starter Homes on new housing developments. It is also proposing to include Starter Homes within the official definition of 'affordable housing'. Starter homes will valued at a discount of 20% on local market values, but can be up to £450,000 in London. Given extremely high house prices in Hackney, the Council's view is that Starter Homes should not be defined as 'affordable housing' as, if they are, there could be a high risk that these could squeeze out the provision of genuinely affordable homes such as social housing and shared ownership.			approach to the Starter Homes initiative.

Control Title	Control Description	Responsible Officer	Service Manager	Due Date	Control - Latest Note
NH RG 008a New Government policies affecting housing	Detailed analysis is being carried out regarding the likely impact of these policies, both internally and with other boroughs and representative organisations. In the case of the forced sale of council homes, this is currently hampered by having few details about how the scheme will operate. However analysis of the potential impacts is being carried out on a range of assumptions and scenarios.	John Lumley	Nigel Minto	08-Nov-2017	Updated December 2016

Control Title	Control Description	Responsible Officer	Service Manager	Due Date	Control - Latest Note
	Individually and with other boroughs, the Council is actively making the case to Government for flexibilities to mitigate the adverse effects of these policies. Once the detailed Statutory Instruments have been published (expected by the end of 2016), the likely impact of forced sales can be more accurately be assessed and work can continue on preparations to implement the measures in a way that best mitigates the impacts on the Council and residents. *1% reduction in rents*: The current savings plan delivers a fully resourced HRA business plan and keeps HRA borrowing below the debt cap. The business plan is monitored annually as part of the budget setting process, taking into account arising cost pressures, changes in government policy and legislation, and any service changes. *Forced sale of council homes*: To mitigate the impact of forced sales, the Council will develop a disposal and investment strategy that: - minimises the impact on mixed communities and meets the highest priority housing needs, and - raises the funds necessary to both pay the levy and provide genuinely affordable replacements. *Starter Homes*: The Council has made a strong case to Government that Starter Homes should not be included within the definition of ‘affordable housing’ in Hackney. We will work with the London Mayor to help make the case for a workable implementation of the initiative in London and, though the Local Plan review, ensure that this is addressed in local planning policy.				

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Hackney

TREASURY MANAGEMENT ACTIVITY REPORT **20th January 2017** **AUDIT COMMITTEE**	**Classification:** **Public**
Ward(s) affected **None**	
Corporate Director **Ian Williams, Group Director of Finance & Corporate Resources**	

1. INTRODUCTION

1.1 The half year treasury activity report for 2016/17 is the detailed update on the treasury activity for the first six months of the financial year (Appendix 1) and the Q3 treasury activity update for the period October 2016 to December 2016 (Appendix 2).

2. RECOMMENDATION(S)

2.1 The Audit Committee is recommended to:

- **Note the treasury management activity reports at Appendices 1 and 2**

3. REASONS FOR DECISION

3.1 The Treasury Management Half Year Report is required under the Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") to be approved along with the Prudential Indicators, The quarterly update at Appendix 2 is presented in accordance with the Council's Treasury Management Strategy.

4. Policy Context

The CIPFA code of practice requires that those charged with oversight receive regular updates on the progress of Council's treasury strategy during the year. Members are being provided with the detailed report on the first six months activity (to September 2016) with an update of the primary treasury indicators along with the Q3 Treasury

Management Report which provides details of activity over during the months of October to December 2016.

4.1 **Equality Impact Assessment**

There are no equality impact issues arising from this report

4.2 **Sustainability**

There are no sustainability issues arising from this report

5. RISK ASSESSMENT

There are no risks arising from this report as the information provided is in respect of past events. Clearly though the treasury management function is a significant area of risk for the Council, if the function is not properly carried out and monitored by those charged with responsibility for oversight of treasury management.

5.1 Consultations

No consultations have taken place in respect of this report.

6. COMMENTS OF THE CORPORATE DIRECTOR OF FINANCE AND CORPORATE RESOURCES

6.1 The half yearly Treasury Activity Report provides an update to this Committee on the treasury activities undertaken on behalf of the Council for the first six months of the current financial year 2016/17. There are no direct financial consequences arising from the report as it reflects the first half year's performance. The information contained in this report will also assist Members of this Committee in monitoring the treasury management activities and enable better understanding of such operations.

6.2 The third quarter's treasury report covers the latest quarter ending December 2016 and reflects the most recent treasury activity.

6.3 Whilst the financial crisis would appear to be receding, the impacts are still being felt in terms of record low interest rates and also how finical institutions are rated and in particular the steps being taken be governments around the globe to bring about stable growth and ensure that risks from banking failures are avoided in the future. The changes highlighted in this report covering changes to the protections for investors in such institutions are likely to impact the Council's treasury strategy for investment going forward and is covered in this report.

7. COMMENTS OF THE DIRECTOR OF LEGAL

7.1 The Accounts and Audit Regulations place obligations on the Council to ensure that its financial management is adequate and effective and that it has a sound system of internal control which includes arrangements for management of risk. In addition the Council within its Annual Treasury Management Strategy has agreed to comply with the CIPFA Code of Practice on Treasury Management. This report demonstrates that Treasury Management is meeting these requirements and adapting to changes as they arise.

7.2 There are no immediate legal implications arising from the report.

8. BACKGROUND

7.1 The half yearly Treasury Activity Report (Appendix 1) provides an update for the Committee on the economic background for the first six months of the current financial year 2016/17. The preliminary estimate of Q2 2016 GDP showed reasonably strong growth as the economy grew 0.7% quarter-on-quarter, however the UK economic outlook changed significantly on 23rd June 2016. The surprise result of the referendum on EU membership prompting the Monetary Policy Committee to initiate substantial monetary policy easing at its August meeting to mitigate the worst of the downside risks. This included a cut in Bank Rate to 0.25%, further gilt and corporate bond purchases (QE) and cheap funding for banks (Term Funding Scheme) to maintain the supply of credit to the economy.

7.2 The Council has an increasing Capital Financing Requirement due to the delivery of its capital programme and therefore may need to borrow in future years, depending on the actual level of reserves and cash balances.

7.3 With regard to the investment portfolio, security of capital remains the prime consideration, particularly given the world economy still struggling to pull itself out of recession and the continuing sovereign and institutional downgrades. The average rate of interest received on investments at the end of December 2016 was 0.86%, compared to 0.74% in December 2015. Although Banks continued access to cheap funding, along with the drop in bank rate, keeps money market rates down, the Council has taken a longer term view of its cash balances and interest rates and invested an element of its core cash for a longer duration in highly secure counterparties (Local Authorities). The level of investments outstanding has decreased from £205 million at the beginning of April 2016 to £186 million at December 2016.

APPENDICES

The appendices to this report details the treasury management activities undertaken by the Council. It sets out in detail the economic background in which the treasury management function has had to operate since the beginning of the financial year and the treasury activities which have taken place in the first six months of the financial year to end of September 2016 and for the period October to December 2016.

Appendix 1 – Treasury Management Half Year Activity Report 2016/17

Appendix 2 – Q3 Treasury Management Activity Update Report 2016/17

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Appendix 1

TREASURY MANAGEMENT HALF YEAR ACTIVITY REPORT 2016/17 (6 MONTHS TO 30TH SEPTEMBER 2016)

1. Background

1.1 The Annual Treasury Management Report is a requirement of the Council's reporting procedures and this report covers the treasury activity for the first six months of the financial year 2016/17, 1st April 2016 to 30th September 2016

1.2 The Council's Treasury Management Strategy has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2009, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year.

1.3 The Code also recommends that members are informed of Treasury Management activities at least twice a year. This report therefore ensures this authority is embracing Best Practice in accordance with CIPFA's recommendations.

1.4 Treasury management is defined as: "The management of the local authority'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."

1.5 The Authority's Treasury Management Strategy for 2016/17 was approved by full Council on 2nd March 2016 and can be accessed on by the following link: http://mginternet.hackney.gov.uk/documents/s47097/TMS%20201617.pdf

1.6 The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.

2. Economic Background

2.1 The economy has remained resilient over the last six months despite the political turmoil. The preliminary estimate of Q2 2016 GDP showed reasonably strong growth as the economy grew 0.7% quarter-on-quarter, as compared to 0.4% in Q1 and year/year growth running at a healthy pace of 2.2%. However the UK economic outlook changed significantly on 23rd June 2016. The surprise result of the referendum on EU membership prompted forecasters to rip up previous projections and dust off worst-case scenarios. Growth forecasts had already been downgraded as 2016 progressed, as the very existence of the referendum dampened business investment, but the crystallisation of the risks and the subsequent political turmoil prompted a sharp decline in household, business and investor sentiment

2.2 The repercussions of this plunge in sentiment on economic growth were judged by the Bank of England to be severe, prompting the Monetary Policy Committee to initiate substantial monetary policy easing at its August meeting to mitigate the worst of the downside risks. This included a cut in Bank Rate to 0.25%, further gilt and corporate bond purchases (QE) and cheap funding for banks (Term Funding Scheme) to maintain the supply of credit to the economy. The minutes of the August meeting also suggested that many members of the Committee supported a further cut in Bank Rate to near-zero levels (the Bank, however, does not appear keen to follow peers into negative rate territory) and more QE should the economic outlook worsen.

2.3 In response to the Bank of England's policy announcement, money market rates and bond yields declined to new record lows. Since the onset of the financial crisis over eight years ago, Arlingclose's rate outlook has progressed from 'lower for longer' to 'even lower for even longer' to, now, 'even lower for the indeterminable future'

3. Debt Management

3.1 The Council had one outstanding long term debt at the start of the financial year; £4m Equal instalment payment loan with the European Investment Bank. The Council undertook no additional borrowing from the start of the year, therefore having the remaining £3.8m EIB as its only borrowing.

3.2 The £3.8m loan relates to 11 year below market rate loan, via the London Energy Efficiency Fund. The money is ring-fenced for communal heating with the final repayment due in December 2025.

3.3 The Authority does not expect to undertake long term borrowing externally in 2016/17. However, the Council may require to externally borrow for short term cash flow purposes.

Table 1: Debt Portfolio positions as at 01/04/2016 and 30/09/2016

	Balance on 01/04/2016 £'000	Debt Maturing £'000	New Borrowing £'000	Balance on 30/09/2016 £'000	Avg Rate %
CFR	212,206				
Short Term Borrowing*	0.400	0.200		0.400	1.90%
Long Term Borrowing	3.600			3.400	1.90%
TOTAL BORROWING	4.000	0.200		**3.800**	
Other Long Term Liabilities	15,902			15,902	9.93%
TOTAL EXTERNAL DEBT	**19,902**	0.200		**19,702**	
(Decrease) in borrowing				(0.200)	

* *Loans that mature within 1 year*

3.2 For the Council the use of internal resources in lieu of borrowing has continued to be the most cost effective means of funding capital expenditure. However, this position will not be sustainable over the medium term and the Council expects it will need to borrow for capital purposes in due course.

3.3 **PWLB Borrowing:** The Authority qualifies for borrowing at the 'Certainty Rate' (0.20% below the PWLB standard rate) for a 12 month period from 01/11/2016. In April the Authority submitted its application along with the 2016/17 Capital Estimates Return to access this reduced rate for a further 12 month period from 01/11/2016

3.4 **Alternative borrowing sources:** Whilst there are several claims that a competitive, comparable equivalent to long-dated PWLB borrowing is readily available, the Council will continue to adopt a cautious and considered approach to funding from the capital markets when required.

4. Investment Activity

4.1 The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. Cashflow forecasts indicated that during 2016/17 the Authority's investment balances would range between £180m and £250 million.

4.2 The Guidance on Local Government Investments in England gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles.

Table 2: Investment Portfolio positions as at 01/04/2016 and 30/09/2016

	Balance as at 01/04/2016 £'000	**Average Rate of Interest %**	**Balance as at 30/09/2016 £'000**	**Average Rate of Interest %**
Short term Investments* (call accounts, deposits) -Banks and Building Societies with ratings of [A-] or higher -Local Authorities	136,495	-	97,096	-
Long term Investments -Banks and Building Societies with ratings of [A+] or higher -Local Authorities	28,000	-	27,000	-
AAA-rated Stable Net Asset Value Money Market Funds	10,625	-	29,235	-
AAA rated Cash enhanced Variable Net Asset Value Money Market Funds	8,000		8,000	
Corporate and Covered Bonds	18,772		22,793	
Housing Associations	-		10,000	
Financial Institutions without credit ratings			2,000	
	201,892	**0.83**	**196,124**	**0.86**

* *Less than one year*

4.2 Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2016/17. New investments were made with the following institutions:

- Other Local Authorities;
- AAA-rated Stable Net Asset Value Money Market Funds;
- AAA rated Cash enhanced Variable Net Asset Value Money Market Funds
- Deposits with UK Banks and Building Societies systematically important to the UK banking system and with select non-UK Banks Australia, Canada, Finland, Singapore, Germany, Netherlands, Switzerland and the US.
- UK Housing Associations
- Corporate and Covered Bonds
- Unrated UK Building Societies

4.3 Counterparty credit quality was assessed and monitored with reference to Credit Ratings (the Council's minimum long-term counterparty rating of A- (or equivalent) across rating agencies Fitch, S&P and Moody's); credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; sovereign support mechanisms /potential support from a well-resourced parent institution and share price.

4.4 Given the increasing risk and continued low returns from short-term unsecured bank investments the Authority has further diversified into more secure and/or higher yielding asset classes such as; covered bonds which are secured on the financial institutions' assets, pooled funds which have the advantage of diversifying investment risks without the need to own and manage the underlying investments, coupled with professional fund management, Housing Associations and sort/medium term Corporate Bonds which are excluded from Bail-in risk.

5. Credit Risk

5.1 Counterparty credit quality remains an important factor in the Council's assessment of approved counterparties. The Council continuously monitors the overall credit quality of its investment portfolio and this is clearly demonstrated by the Credit Score Analysis summarised below. The credit scores are based on the Council's quarter-end in-house investment position.

Table 3: Credit Score Analysis

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating Score	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating Score
30/04/2016	3.33	AA	3.07	AA
30/06/2016	3.21	AA	3.87	AA
30/09/2015	3.37	AA	3.83	AA

Scoring:
-Value weighted average reflects the credit quality of investments according to the size of the deposit
-Time weighted average reflects the credit quality of investments according to the maturity of the deposit
-AAA = highest credit quality = 1
- D = lowest credit quality = 27
-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

6. Counterparty Update

6.1 Various indicators of credit risk reacted negatively to the result of the referendum on the UK's membership of the European Union. UK bank credit default swaps saw a modest rise but bank share prices fell sharply, on average by 20%, with UK-focused banks experiencing the largest falls. Non-UK bank share prices were not immune although the fall in their share prices was less pronounced.

6.2 Fitch downgraded the UK's sovereign rating by one notch to AA from AA+, and Standard & Poor's downgraded its corresponding rating by two notches to AA from AAA. Fitch, S&P and Moody's have a negative outlook on the UK. S&P took similar actions on rail company bonds guaranteed by the UK Government. S&P also downgraded the long-term ratings of the local authorities to which it assigns ratings as well as the long-term rating of the EU from AA+ to AA, the latter on the agency's view that it lowers the union's fiscal flexibility and weakens its political cohesion.

6.3 Moody's affirmed the ratings of nine UK banks and building societies but revised the outlook to negative for those that it perceived to be exposed to a more challenging operating environment arising from the 'leave' outcome.

6.4 The European Banking Authority released the results of its 2016 round of stress tests on the single market's 51 largest banks after markets closed on Friday 29th July. The stress tests gave a rather limited insight into how large banks might fare under a particular economic scenario. When the tests were designed earlier this year, a 1.7% fall in GDP over three years must have seemed like an outside risk. Their base case of 5.4% growth now looks exceptionally optimistic and the stressed case could be closer to reality. No bank was said to have failed the tests. The Royal Bank of Scotland made headline news as one of the worst performers as its ratios fell by some of the largest amounts, but from a relatively high base. Barclays Bank and Deutsche Bank ended the test with Common Equity Tier 1 (CET1) ratios below the 8% threshold, and would be required to raise more capital should the stressed scenario be realised. The tests support our cautious approach on these banks.

6.5 In July Arlingclose, the Council's Treasury Advisors, completed a review of unrated building societies' annual financial statements. Cumberland, Harpenden and Vernon Building Society were removed from Arlingclose's advised list, following a deterioration in credit indicators. The maximum advised maturity was also lowered for eleven societies from 6 months to 100 days due to the uncertainty facing the UK property market following the EU referendum.

7. Compliance with Prudential Indicators

7.1 The Council can confirm that it has complied with its Prudential Indicators for 2016/17, which were set in March 2016 as part of the Council's Treasury Management Strategy Statement.

Compliance with these Indicators is detailed below -

- **Capital Financing Requirement**

Estimates of the Council's cumulative maximum external borrowing requirement for 2016/17 to 2018/19 are shown in the table below:

	31/03/2016 Actual £'000	31/03/2017 Revised £'000	31/03/2018 Revised £'000	31/03/2019 Revised £'000
Gross CFR	227,688	243,385	375,959	453,010
Less: Other Long Term Liabilities	15,482	14,821	14,112	13,349
Borrowing CFR	**212,206**	**228,564**	**361,847**	**439,661**
Less: Existing Profile of Borrowing	4,000	3.600	39,142	122,175
Gross Borrowing Requirement/Internal Borrowing	**208,206**	**228,560**	**322,705**	**317,486**
Usable Reserves	324,439	180,000	100,000	100,000
Net Borrowing Requirement/(Investment) Capacity	**(116,233)**	**48,560**	**222,705**	**217,486**

- **Gross Debt and the Capital Financing Requirement**

In the Prudential Code Amendment (November 2012), it states that the chief finance officer should make arrangements for monitoring with respect to gross debt and the capital financing requirement such that any deviation is reported to him/her, since any such deviation may be significant and should lead to further investigation and action as appropriate.

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

If in any of these years there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with **gross** external debt.

	31/03/2016 Actual £'000	31/03/2017 Revised £'000	31/03/2018 Revised £'000	31/03/2019 Revised £'000
CFR	212,206	228,564	361,847	439,661
Gross Debt	4,000	3.600	39,142	122,175
Borrowed in excess of CFR? (Yes/No)	**No**	**No**	**No**	**No**

The Group Director of Finance and Corporate Resources reports that the Authority had no difficulty meeting this requirement in 2016/17 (to date), nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

- **Usable Reserves**

Estimates of the Council's level of Usable Reserves for 2015/16 to 2018/19 are as follows:

	31/03/2016 Actual £'000	31/03/2017 Revised £'000	31/03/2018 Revised £'000	31/03/2019 Revised £'000
Usable Reserves	324.439	180.000	100.000	100.000

- **Estimates of Capital Expenditure**

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels.

Capital Expenditure	31/03/2016 Actual £'000	31/03/2017 Revised £'000	31/03/2018 Revised £'000	31/03/2019 Revised £'000
Non-HRA	74,348	130,805	177,077	115,429
HRA	91,872	103,088	186,929	246,491
Total	**166,220**	**233,893**	**364,006**	**361,920**

Capital expenditure will be financed or funded as follows:

Capital Financing	31/03/2016 Actual £'000	31/03/2017 Revised £'000	31/03/2018 Revised £'000	31/03/2019 Revised £'000
Borrowing - Supported	9.692			
Borrowing - Unsupported	-	19.948	136.394	84.799
S106	8.545	6.261	0.774	0
Capital receipts	10.331	68.64	104.885	206.281
Grants	25.297	23.051	27.451	6.718
Reserves	12.452	11.653	7.265	3.887
RCCO	55.816	38.606	50.000	48.700
Discretionary	44.086	65.732	37.237	11.535
Total Financing	**166.220**	**233.893**	**364.006**	**361.920**

The table above shows that the capital expenditure plans of the Authority cannot be funded entirely from sources other than external borrowing.

- **Ratio of Financing Costs to Net Revenue Stream:**

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code.

The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2015/16 Approved %	2016/17 Revised %	2017/18 Revised %	2018/19 Revised %
Non-HRA	1.41%	2.61%	4.17%	4.33%
HRA	3.42%	1.95%	2.28%	1.27%

Note – approved has interest as the only financing cost

- **Capital Financing Requirement**

The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and financing.

Capital Financing Requirement	2015/16 Approved £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000
CFR – Non Housing	157,530	135,371	217,844	274,657
CFR – Housing	60,078	108.014	158.115	178.353
Total CFR	**217,608**	**243,385**	**375,959**	**456,996**

-

- **Incremental Impact of Capital Investment Decisions**

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	2016/17 £	2017/18 Estimate £	2018/19 Estimate £
Increase in Band D Council Tax	0	0	30.55
Increase in Average Weekly Housing Rents	0	0	(1.01)

The Council's capital plans, as estimated in forthcoming financial years, have a neutral impact on council tax and/or housing rents. This reflects the fact that capital expenditure is predominantly financed from internal resources (grants, contributions, revenue and capital receipts). There is therefore no effect on Council Tax or Housing Rents. The other possible revenue consequences of the capital programme such as running costs are also assumed to be revenue neutral in this calculation.

- **Authorised Limit and Operational Boundary for External Debt**

The Local Government Act 2003 requires the Council to set an **Authorised Borrowing Limit**, irrespective of their indebted status. This is a statutory limit which should not be breached.

The Council's **Authorised Borrowing Limit** was set at **£267m for 2015/16**.

The **Operational Boundary** is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit.

The **Operational Boundary for 2015/16 was set at £237 m.**

The Group Director of Finance and Corporate Resources confirms that there were no breaches to the Authorised Limit and the Operational Boundary during the year; and borrowing at its peak was £4.0m.

	Authorised Limit (Approved) as at 31/03/2016 £m	**Operational Boundary (Approved) as at 31/03/2016 £m**	**Actual External Debt as at 30/09/2016 £m**
Borrowing	267,607	237,607	4.000
Other Long-term Liabilities	0	0	15,904
Total	267,607	237,607	19.904

- **Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure**

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.

The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	Limits for 2016/17 £'000
Upper Limit for Fixed Rate Exposure	80,000
Compliance with Limits:	**Yes**
Upper Limit for Variable Rate Exposure	20,000
Compliance with Limits:	**Yes**

- **Maturity Structure of Fixed Rate Borrowing**

This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

Maturity Structure of Fixed Rate Borrowing	**Lower Limit %**	**Upper Limit %**	**Actual Fixed Rate Borrowing as**	**% Fixed Rate Borrowing**	**Compliance with Set**

			at 30/09/16	as at 30/09/16	Limits?
under 12 months	0	100	400	10.53%	Yes
12 months and within 24 months	0	100	400	10.53%	Yes
24 months and within 5 years	0	100	1,200	31.57%	Yes
5 years and within 10 years	0	100	1.800	47.37%	Yes
10 years and within 20 years	0	100	0	0	Yes
20 years and within 30 years	0	100	0	0	Yes
30 years and within 40 years	0	100	0	0	Yes
40 years and within 50 years	0	100	0	0	Yes
50 years and above	0	100	0	0	Yes

- **Total principal sums invested for periods longer than 364 days**

  This indicator allows the Council to manage the risk inherent in investments longer than 364 days.

  The limit for 2016/17 was set at £80m.

  During the reporting period, the Council had a total of £28m in a fixed term investment over 365 years.

  In addition, the Council had £7.8 million in Covered Bonds for longer than 365 days. Although these bonds could be sold through the market at any point, the Council implements a buy and hold strategy and therefore will hold these bonds until they mature.

- **Credit Risk**

  This indicator has been incorporated to review the Council's approach to credit risk. The Council confirms it considers security, liquidity and yield, in that order, when making investment decisions.

  Credit ratings remain an important element of assessing credit risk, but they are not the sole feature in the Authority's assessment of counterparty credit risk. The authority considers the following tools to assess credit risk:

  - Published credit ratings of the financial institution and its sovereign;
  - Sovereign support mechanisms;
  - Credit default swaps (where quoted);
  - Share prices (where available);
  - Economic fundamentals, such as a country's net debt as a percentage of its GDP);
  - Corporate developments, news, articles, markets sentiment and momentum.

  The Council can confirm that all investments were made in line with minimum credit rating criteria set in the 2016/17 TMSS.

- **HRA Limit on Indebtedness**

  This purpose of this indicator is for the Council to report on the level of the limit imposed at the time of implementation of self-financing by the Department for Communities and Local Government.

HRA Limit on Indebtedness	2016/17 Approved £m	31/03/2017 Revised £m	31/03/18 Revised £m	31/03/19 Revised £m
HRA Debt Cap	178,353	178,353	178,353	178,353
HRA CFR	69.770	108.014	158.115	178.353
Difference (Additional Borrowing Capacity for the HRA)	108.583	70.339	20.238	0

10. Summary

10.1 In compliance with the requirements of the CIPFA Code of Practice this report provides Members with a summary report of the treasury management activity during the first two quarters of 2016/17. As indicated in this report none of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

Appendix 2

Q3 TREASURY MANAGEMENT UPDATE 2016/17 (OCTOBER 2016 to DECEMBER 2016)

1. Economic Highlights in Q3 2016/17

- **Growth**: The third estimate of Q3 GDP showed the UK economy expanded by 0.6% over the quarter and 2.2% year-on-year.

- **Inflation**: UK Inflation is currently on and upwards trend, rising 0.9% in November to 1.2%. Despite this, inflation remains below the target level of 2%.

- **Monetary Policy:** Following the recent change in bank rate and asset purchase program in July, Monetary Policy Committee voted unanimously to maintain Bank Rate at 0.25%. The Committee also voted unanimously to continue with the programme of £60 billion of UK government bond and £10 billion of corporate bond purchased announced in August.

2. Borrowing & Debt Activity

2.1 The Authority currently has £3.6m in external borrowing. This is made up of a single £3.6m London Energy Efficiency Fund (LEEF) loan from the European Investment Bank to fund housing regeneration.

2.2 Close analysis of the Council's cashflow requirements and its Capital Financing Requirement (CFR is an indicator of the overall need to borrow), as it is currently known, indicates that new borrowing, including borrowing proposed in the HRA business plan, may be required in the next 3 years.

3. Investment Policy and Activity

3.1 The Council held average cash balances of £200 million during the three month period, compared to £250 million for the same period last financial year.

Table 1: Movement in Investment Balances 01/10/16 to 31/12/16

	Balance as at 01/10/2016 £'000	**Average Rate of Interest %**	**Balance as at 31/12/2016 £'000**	**Average Rate of Interest %**
Short term Deposits	97,096	-	72,619	
Long term Deposits*	27,000	-	31,500	
AAA-rated Stable Net Asset Value Money Market Funds	29,235	-	33,745	
AAA rated Cash enhanced Variable Net Asset Value Money Market Funds	8,000		8,000	
Corporate and Covered Bonds	22,793		24,713	
Housing Associations	10,000		15,000	
Financial Institutions without credit ratings	2,000		2,000	
	196,124	**0.86**	**185,578**	**0.84**

*deposits with over a year until maturity

3.2 The Guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.

3.3 The Council's specific policy objective is to invest its surplus funds prudently. The Council's investment priorities are:

- security of the invested capital; liquidity of the invested capital; and,
- an optimum yield which is commensurate with security and liquidity.

3.4 The ongoing investment strategy remained extremely cautious but counterparty credit quality remains strong, as can be demonstrated by the Credit Score Analysis summarised below:

Table 3: Credit Score Analysis

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating Score	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating Score
31/10/2016	3.18	AA	4.18	AA-
30/11/2016	3.22	AA	3.63	AA
31/12/2016	3.17	AA	3.64	AA

-Value we-weighted average reflects the credit quality of investments according to the size of the deposit
-Time weighted average reflects the credit quality of investments according to the maturity of the deposit
-AAA = highest credit quality = 1
- D = lowest credit quality = 27
-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

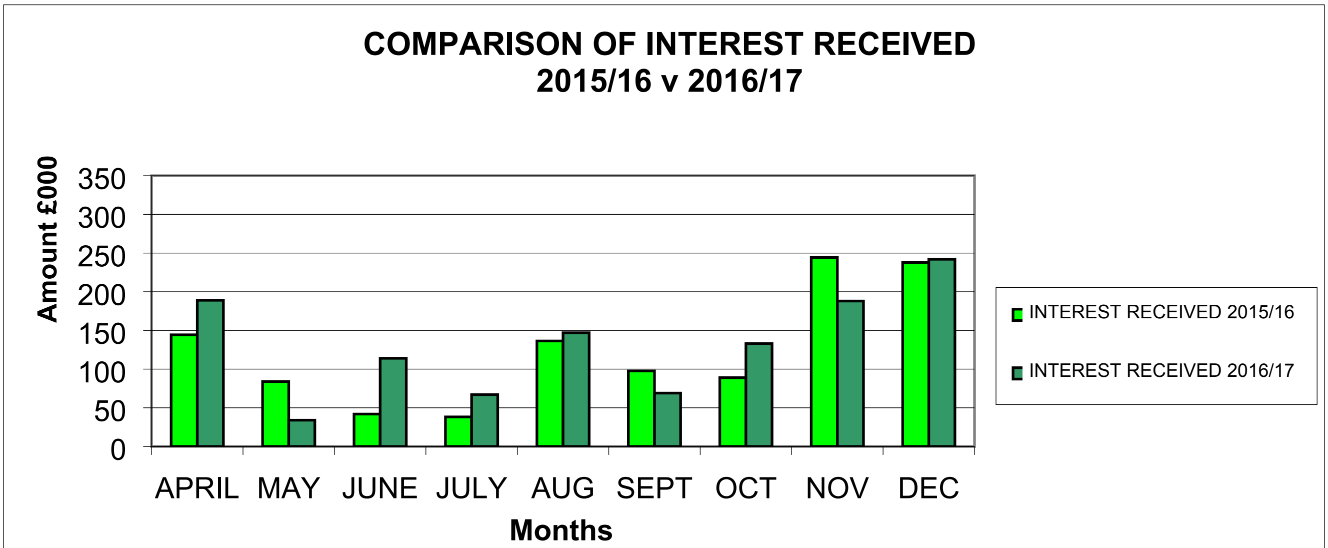
3.5 The Council continues to utilise AAAmmf/Aaa/AAAm rated Money Market Funds for its very short, liquidity-related surplus balances, together with high credit rated call accounts. This type of investment vehicle has continued to provide very good security and liquidity, although yield has suffered in recent months

4. Comparison of Interest Earnings

4.1 The Council continues to adopt a fairly cautious strategy in terms of investment counterparties and periods. Due to the volatility of available creditworthy counterparties, longer term investments have been placed in highly rated UK Government institutions or Covered (secured) Bonds. Thus ensuring creditworthiness whilst increasing yield's through the duration of the deposits.

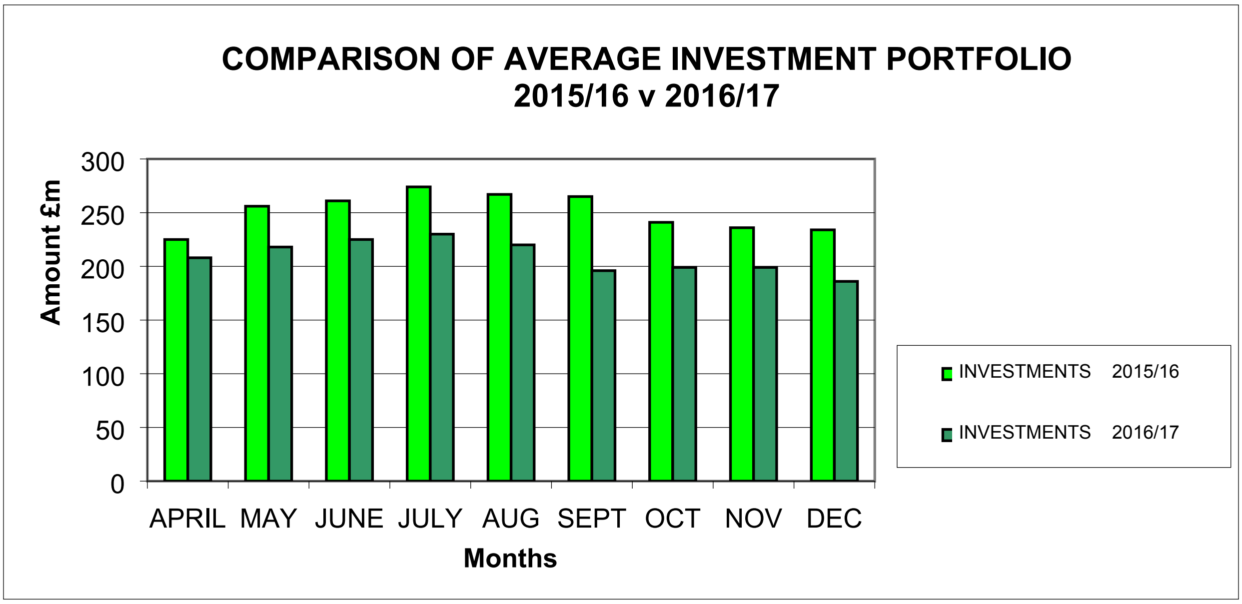
4.2 The graph below provides a comparison of interest earnings for 2016/17 against the same period for 2015/16. The graph highlights that the Council's longer term investment approach is paying dividends with high levels on interest received when taking into account the investment market environment.

Average interest received for the period October to December 2016 was £188k compared to £190k for the same period last financial year.



5. Movement in Investment Portfolio

5.1 Investment levels have decreased to £186 million at the end of December In comparison to the same period last year of £234 million.



7. Summary

7.1 In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during the third quarter of the financial year 2016/17. As indicated in this report, a prudent approach has been taking in relation investment activity with priority being given to security and liquidity over yield.

Hackney

TREASURY MANAGEMENT STRATEGY 2017/18 18th January 2017 AUDIT COMMITTEE	Classification: Public
Ward(s) affected None	
Corporate Director Ian Williams, Group Director of Finance and Resources	

1. **INTRODUCTION**

1.1 This report introduces the Annual Treasury Management Strategy for 2017/18, for the Audit Committee, setting out the expected treasury operations for the 2017/18 financial year.

2. **RECOMMENDATION(S)**

2.1 The Audit Committee is recommended to:

- **Approve the draft Treasury Management Strategy 2017/18 to 2019/20 for submission to Council subject to Capital programme updates with delegated powers to the Corporate Director of Finance and Resources to approve the final Treasury Management Strategy for submission to Council.**

3. REASONS FOR DECISION

3.1 The Treasury Management Strategy is required under the Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") to be approved by full Council along with the Prudential Indicators.

4. BACKGROUND

4.1 Policy Context

4.1.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis. The TMSS also incorporates the Investment Strategy as required under the CLG's Investment Guidance.

4.2 Equality Impact Assessment

There are no equality impact issues arising from this report

4.3 Sustainability

There are no sustainability issues arising from this report

5. RISK ASSESSMENT

5.1 Consultations

No consultations have taken place in respect of this report.

5.2 Risk Assessment

The treasury management function is a significant area of risk for the Council if the function is not properly carried out and monitored by those charged with responsibility for oversight of treasury management. This Strategy sets out measures that mitigate that risk and sets the parameters within which the function should be carried out. Regular reporting on treasury ensures that the Committee is kept informed

6. COMMENTS OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES

6.1 The Treasury Management Strategy sets out how the Council's cash flow will be managed during the financial year 2017/18. The actual cost of borrowing and interest on investments will depend on market conditions and timing will be an important factor in decisions to be taken on the debt portfolio. The prudential indicators are still to be finalised as part of the annual budget setting process relating to the capital programme.

6.2 Whilst the financial crisis would appear to be receding, the impacts are still being felt in terms of record low interest rates and also how financial institutions are rated and in particular the steps being taken be governments around the globe to bring about stable growth and ensure that risks from banking failures are avoided in the future. The changes highlighted in this report covering changes to the protections for investors in such institutions are likely to impact the Council's treasury strategy for investment going forward and is covered in this report.

7. COMMENTS OF THE DIRECTOR OF LEGAL

7.1 The Accounts and Audit Regulations 2015 place obligations on the Council to ensure that its financial management is adequate and effective and that it has a sound system of internal control which includes arrangements for management of risk. In addition the Council within its Annual Treasury Management Strategy has agreed to comply with the CIPFA Code of Practice on Treasury Management. This report demonstrates that Treasury Management is meeting these requirements and adapting to changes as they arise.

7.2 There are no immediate legal implications arising from the report.

8. BACKGROUND

8.1 The Treasury Strategy set out below in set in the context of the current macro-economic environment and the continuation of record low interest rates.

8.2 The Council has an increasing Capital Financing Requirement (CFR) due to its capital programme and therefore may need to borrow in future years, depending on the actual level of reserves and capital receipts and other resources available to it

TREASURY MANAGEMENT STRATEGY 2017/18 TO 2019/20

1 SUMMARY

1.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators (PIs) on an annual basis. The TMSS also includes the Annual Investment Strategy (AIS) that is a requirement of the CLG's Investment Guidance.

2 RECOMMENDATIONS

2.1 Committee are to:

- Recommend the Treasury Management Strategy for 2017/18 to 2019/20 to Council for approval
- Recommend the criteria for lending and the financial limits set out in this report, which will take effect immediately.
- Recommend the Treasury Management Policy Statement coming into force on 1st April 2017 to Council for approval, as set out in Appendix B.

3 RELATED DECISIONS

3.1 Cabinet and Council will consider the report on the revenue and capital budgets for 2017/18 in Feb/March 2017. That report contains provisions for the cost of borrowing consistent with the Treasury Management Strategy. That report also recommends that the Council sets its Treasury Management and Affordability Prudential Indicators. This report assumes that those recommendations will be approved by Council.

4 COMMENTS OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES

4.1 The Treasury Management Strategy sets out how the Council's cash flows will be managed during the financial year 2017/18. The actual cost of borrowing and interest on investments will depend on market conditions and timing will be an important factor in decisions to be taken on the debt portfolio.

5 BACKGROUND

5.1 The Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year.

5.2 In addition, the Department for Communities and Local Government (CLG) issued revised *Guidance on Local Authority Investments* in March 2010 that requires the Council to approve an investment strategy before the start of each financial year.

5.3 This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the CLG Guidance.

5.4 The purpose of this TMSS is, therefore, to approve:

- Treasury Management Strategy for 2017/18
- Annual Investment Strategy for 2017/18

5.5 The Council invests large sums of money and therefore, potentially, has exposure to certain financial risks concerning the capital sums invested and the effect of changing interest rates. The successful identification, monitoring and control of risk, is therefore central to the Council's treasury management strategy.

6 ECONOMIC BACKGROUND

6.1 The major external influence on the Authority's treasury management strategy for 2017/18 will be the UK's progress in negotiating a smooth exit from the European Union. Financial markets, wrong-footed by the referendum outcome, have since been weighed down by uncertainty over whether leaving the Union also means leaving the single market. Negotiations are expected to start once the UK formally triggers exit in early 2017 and last for at least two years. Uncertainty over future economic prospects will therefore remain throughout 2017/18.

6.2 The fall and continuing weakness in sterling and the near doubling in the price of oil in 2016 have combined to drive inflation expectations higher. The Bank of England is forecasting that Consumer Price Inflation will breach its 2% target in 2017, the first time since late 2013, but the Bank is expected to look through inflation overshoots over the course of 2017 when setting interest rates so as to avoid derailing the economy.

6.3 Initial post-referendum economic data showed that the feared collapse in business and consumer confidence had not immediately led to lower GDP growth. However, the prospect of leaving the single market has dented business confidence and resulted in a delay in new business investment and, unless counteracted by higher public spending or retail sales, will weaken economic growth in 2017/18.

6.4 Looking overseas, with the US economy and its labour market showing steady improvement, the market has priced in a high probability of the Federal Reserve increasing interest rates in December 2016. The Eurozone meanwhile has continued to struggle with very low inflation and lack of momentum in growth, and the European Central Bank has left the door open for further quantitative easing.

6.5 The impact of political risk on financial markets remains significant over the next year. With challenges such as immigration, the rise of populist, antiestablishment parties and negative interest rates resulting in savers being paid nothing for their frugal efforts or even penalised for them, the outcomes of Italy's referendum on its constitution (December 2016), the French presidential and general elections (April – June 2017) and the German federal elections (August – October 2017) have the potential for upsets.

6.6 Markets have expressed concern over the financial viability of a number of European banks recently. Sluggish economies and continuing fines for pre-crisis behaviour have weighed on bank profits, and any future slowdown will exacerbate concerns in this regard.

6.7 Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however continue to fall.

7 INTEREST RATE FORECAST

7.1 The Authority's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.25% during 2017/18. The Bank of England has, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further falls in the Bank Rate look less likely. Negative Bank Rate is currently perceived by some policymakers to be counterproductive but, although a low probability, cannot be entirely ruled out in the medium term, particularly if the UK enters recession as a result of concerns over leaving the European Union.

7.2 Gilt yields have risen sharply, but remain at low levels. The Arlingclose opinion is for yields to decline when the government triggers Article 50. Long-term economic fundamentals remain weak, and the quantitative easing (QE) stimulus provided by central banks globally has only delayed the fallout from the build-up of public and private sector debt. The Bank of England has defended QE as a monetary policy tool, and further QE in support of the UK economy in 2017/18 remains a distinct possibility, to keep long-term interest rates low.

7.3 A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix A.

8 CURRENT POSITION AND BALANCE SHEET SUMMARY

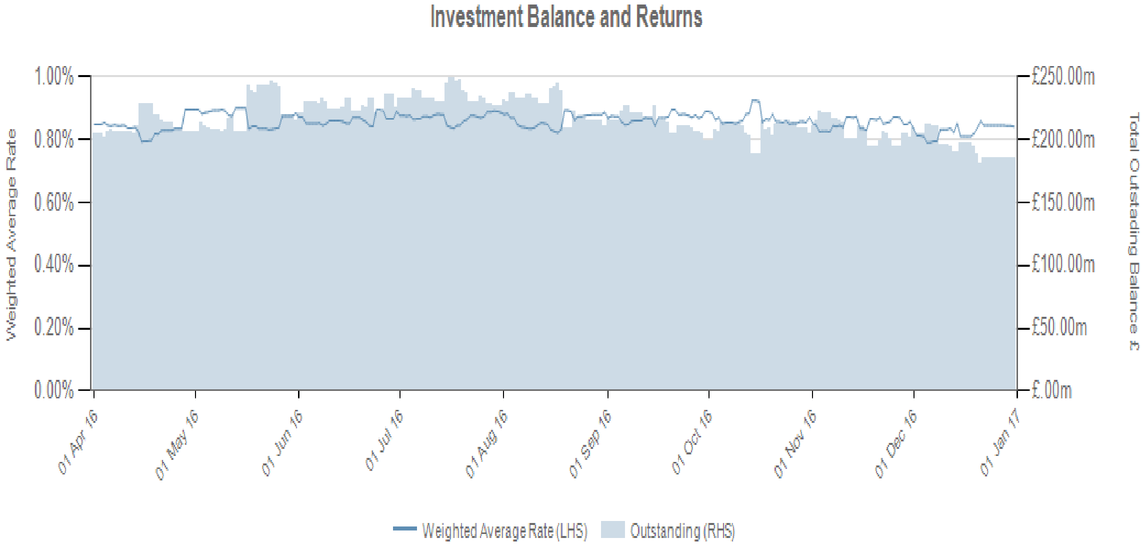
8.1 The Council currently (as at 31.12.16) has one outstanding external borrowing of £3.6m and has £185,578 of investments.

Table 1: Existing Investment & Debt Portfolio Position as at 31/12/16

	Portfolio outstanding as at 31/12/2016 £'000
External Borrowing: PWLB – Fixed Rate	0
PWLB – Variable Rate	0
Market – Fixed Rate	3.600
Market – Variable Rate	0
Total External Borrowing	**3.600**
Other Long Term Liabilities: PFI	15.482
Finance Leases	0.422
Total Gross External Debt	**16.902**
Investments: Short-term monies - Deposits/ monies on call/MMFs	132.745
Long-term investments	52.833
Total Investments	**185,578**

8.2 The Council investment balances have fluctuated over the period, initially there was an increase due to the front loading of some grants but this has been followed by a slight downward trend, as these grants are utilised. Weighted average rate (investment return) has steadily increased. This has been the result of effective treasury and cash management. The movement of cash balances (thick grey block) and yield (thin blue line) throughout the year is represented in the graph below:

Graph 1: Investment balance and return



8.3 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. Forecast changes in these sums are shown in the balance sheet analysis in table 2 below.

Table 2: Balance Sheet Summary and Forecast

	31.3.16 Actual £m	**31.3.17 Estimate £m**	**31.3.18 Estimate £m**	**31.3.19 Estimate £m**	**31.3.20*** Estimate £m**
General Fund CFR	157,918	135,371	217,844	274,657	280,918
HRA CFR	69,770	108,014	158,115	178,353	182,339
Total CFR	**227,688**	**243,385**	**375,959**	**453,010**	**463,257**
Less: Other long-term liabilities *	15,482	14,821	14,112	13,349	12,528
Less: External borrowing **	4,000	3.600	39,142	122,175	15,448
Cumulative Maximum External Borrowing Requirement	**208,206**	**224,964**	**322,705**	**317,486**	**435,281**
Less: Usable reserves***	324,439	180,000	100,000	100,000	100,000
Cumulative Net Borrowing Requirement /(Investments)	**(116,233)**	**44,964**	**222,705**	**217,486**	**335,281**

* finance leases and PFI liabilities that form part of the Authority's debt

** shows only loans to which the Authority is committed and excludes optional refinancing

*****Table 2 is subject to finalisation of the Budget Report**

8.5 The Authority currently has £3.6m in external borrowing. This is made up of a single £3.6m London Energy Efficiency Fund (LEEF) loan from the European Investment Bank to fund housing regeneration.

8.6 Furthermore, the Council has an increasing CFR due to its capital programme and therefore may need to borrow over the forecast period, depending on the actual level of reserves.

8.7 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 2 shows that the Authority expects to comply with this recommendation during 2017/18

8.8 Table 3 set out the operational boundary and authorised limits for the Authority for the coming years:

Table 3: Operational Boundary and Authorised Limit

	31.3.16 Actual £m	31.3.17 Estimate £m	31.3.18 Estimate £m	31.3.19 Estimate £m
Operational Boundary				
Operational Boundary for External Debt	**266,813**	**281,284**	**413,959**	**493,996**
Authorised Limit				
Authorised Limit for External Debt	**295,813**	**210,385**	**442,959**	**522,996**

9 BORROWING STRATEGY

9.1 The balance sheet forecast in Table 2 shows that the Authority expects to borrow up to £222,705 2017/18. The Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £442,959 million in 2017/18.

9.2 The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

9.3 Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

9.4 By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. Whilst such a strategy is most likely to be beneficial over the next 2-3 years as official interest rates remain low, it is unlikely to be sustained in the medium-term. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Undertaking regular reviews regarding borrowing options, such as cost of carry and breakeven analysis will help determine whether the Authority borrows additional sums at long-term fixed rates in 2017/18 with a view to keeping future interest costs low, even if this causes additional costs in the short-term.

9.5 Alternatively, the Authority may arrange forward starting loans during 2017/18, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

9.6 In addition, the Authority may borrow short-term loans (normally for up to three month) to cover unexpected cash flow shortages.

The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board and any successor body
- UK local authorities
- any institution approved for investments (see below)
- any other bank or building society authorised by the Prudential Regulation Authority to operate in the UK
- Municipal Bond Agency
- UK public and private sector pension funds (except London Borough of Hackney Pension Fund)
- capital market bond investors
- special purpose companies created to enable joint local authority bond issues.

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase

- Private Finance Initiative
- sale and leaseback

9.7 The Council has previously raised the majority of its long-term borrowing from the Public Works Loan Board, but it continues to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates.

9.8 Short-term and variable rate loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators in point 12.4 below.

9.9 The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Some bank lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall saving or reduction in risk.

10 INVESTMENT RISK MANAGEMENT

10.1 Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income.

10.2 As a result of the 2008 financial crisis, there has been a major effort by governments and regulators to make legislative and regulatory changes to the banking environment. These changes were undertaken with the aim of preventing the future failures of banks and to move away from tax payer funded bail outs, as was the case for Lloyds and RBS, and move towards a bail in scenario.

10.3 Bail in is whereby a levy on deposits within banks would be made to lower the amount of external bail out needed. It would take place before a bankruptcy with regulators imposing losses on shareholders, bond holders and unsecured deposits.

10.4 Bail in was first introduced during the Cypriot financial crisis in March 2013, when the Cypriot government was to able to re-finance its banks and the EU did not provide the finance to bail the banks out. Subsequently, the Cypriot banks were bailed-in via a levy on all unsecured depositors of more than £100,000.

10.5 The Banking Reform Act (2013) delivered significant reform to the UK banking sector and introduced into law the bail in process as a pre-emptive measure to stop failing banks. This means that unsecured depositors, such as Local Authorities, would be subject to a levy on their deposits if that counterparty was bailed in.

10.6 In addition to the Banking reform Act, the transposition of two European Union directives into UK legislation in the coming months will place the burden of rescuing failing EU banks via bail-in disproportionately onto unsecured local authority investors. The Bank Recovery and Resolution Directive promotes the interests of individual and small businesses covered by the Financial Services Compensation Scheme and similar European schemes, while the recast Deposit Guarantee Schemes Directive includes large companies into these schemes. The combined effect of these two changes is to leave public authorities and financial organisations (including pension funds) as the only senior creditors likely to incur losses in a failing bank after July 2015.

10.7 To reduce and manage this risk, it is recommended that the Council continues with its current investment strategy for high diversification and hold some investments in more secured instruments (those instruments excluded from bail in risk) such as Covered Bonds and Tri-party Repos, as well as looking at non-financial counterparties such as corporations. For unsecured deposits, the Council will continue to ensure high diversification amongst the Banks and Building Societies which will help to reduce single exposure to one organisation and increase diversification.

11 INVESTMENT STRATEGY

11.1 The Authority holds varying levels of invested funds at varying lengths of duration. These investments represent income received in advance of expenditure plus balances and reserves held.

11.2 For the 2016/17 financial year the Council is estimated to have had an average investment balance of £201million (as of 31.12.16), down from £255m for the same period last year. It is expected that investment levels will continue to decrease in forthcoming years as balances are used to fund the capital programme.

11.3 Given the increasing risk as detailed in section 10, the Authority aims to further diversify into more secure asset classes during 2017/18. During 2016/17 the Council has made a conscious effort to reduce its exposure to bail-in risk via bank deposits. Consequently, the majority of Council investments are no longer in unsecure bank deposits. Instead the majority of the Authorities surplus cash is currently invested in money market funds, deposits in Local authorities and Housing Associations. In the next year the Council will continue to look to increase its exposure to investments exempt form Bail in, such as covered and corporate bonds and Tri-party repos. This increased diversification in both instruments and counterparties will represent a substantial change in strategy over the coming year.

11.4 The Council's 2017/18 Lending Policy reflects this approach by setting separate limits for secured and unsecured investments. Appendix 1 details the Council's lending policy and limits.

11.5 Investment regulations require the Council to determine what specified and non-specified investments it will use. CLG guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
    - the UK Government,
    - a UK local authority, parish council or community council,

  or

    - a body or investment scheme of "high credit quality".

The Authority defines "high credit quality" organisations as those having a credit rating of A- (or equivalent) or higher, that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher.

11.6 Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in Table 4 below.

Table 4: Non-Specified Investment Limits

	Cash limit
Total long-term investments	£90m
Total investments without credit ratings or rated below [A-] which includes non-rated banks and building societies	£45m
Total investments in foreign countries rated below [AA+]	£45m

11.7 The Council understands that credit ratings are a good predictor of investment default but are rating agencies' expressed opinions and not a perfect indicator.

Therefore, Officers will use other sources of information; including credit default swap ratings and equity prices, to determine the credit quality of an organisation. These are detailed in the Appendix 1, section 4 of the proposed Lending Policy.

11.8 No investments will be made with an organisation if there are substantive doubts about its credit quality even though it may meet the Lending Policy criteria. This means the Lending Policy applied operationally may at times be more restrictive than it formally allows.

11.9 When deteriorating financial market conditions affect the creditworthiness of all organisations but these are not generally reflected in credit ratings, then the Council will restrict its investments in those organisations to maintain the required level of security. These restrictions may mean that insufficient commercial organisations of "high credit quality" are available for investment and so any cash surplus will be deposited with the government's Debt Management Office or with other local authorities. This may result in a reduction in the level of investment income earned but will protect the principal sums invested.

11.10 The proposed 2017/18 Treasury Management Strategy has considered a full range of risks and Officers will apply the strategy to ensure that security of deposits is the prime consideration. However, in agreeing the proposed strategy, Members should be aware that there is always a risk of default of counterparties other than the Debt Management Office which is guaranteed by the government.

11.11 The Authority uses cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a pessimistic basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

12 TREASURY MANAGEMENT INDICATORS

12.1 The Authority measures and manages its exposures to treasury management risks using the following indicators.

12.2 **Security:** The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

	Target
Portfolio average credit rating	A-

12.3 **Liquidity:** The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling 3 month period, without additional borrowing.

	Target
Target total cash available within 3 months	£30m

12.4 **Interest Rate Exposures**: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the net amount of interest payable will be:

	2017/18 £'000	**2018/19 £'000**	**2019/20 £'000**
Upper limit on fixed interest rate exposure	100,000	100,000	100,000
Upper limit on variable interest rate exposure	20,000	20,000	20,000

12.5 Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

12.6 **Maturity Structure of Borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	**Lower**
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

12.7 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

12.8 **Principal Sums Invested for Periods Longer than 364 days:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2017/18	**2018/19**	**2019/20**
Limit on principal invested beyond year end	£90m	£90m	£90m

13 OTHER ITEMS

13.1 There are a number of additional items that the Authority is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

13.2 **Policy on Use of Financial Derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

13.3 The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

13.4 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

13.5 **Policy on Apportioning Interest to the HRA:** The Council has adopted a two pooled approach following the self-financing settlement in March 2012. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. Where the HRA needs to borrow from the General Fund to meet its remaining borrowing requirement the General Fund is compensated based on what the Council would have to borrow from the PWLB, with rates based on a best decision from a treasury management perspective and the current interest rate outlook. This will be determined annually following advice from the Council's treasury advisers and the interest transferred between the General Fund and the HRA at the year end.

13.6 **Investment Training:** The needs of the Authority's treasury management staff for training in investment management are assessed as part of individual staff appraisal processes, and additionally when the responsibilities of individual members of staff change.

13.7 Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

13.8 **Investment Advisers:** The Council has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. Arlingclose are an independent treasury advisory company providing unbiased financial advice and capital financing expertise for the public sector. They provide advice on investment trends, developments and opportunities consistent with the Council's chosen strategy relating to investments, debt repayment and restructuring, and also for economic information and data interpretation.

13.9 Although the Council uses the expertise of an external provider for treasury management advice relating to investing, borrowing and restructuring of the portfolios, the Council remains fully accountable for any decisions made.

13.10 Regular communications are received in relation to economic data releases, interest rate forecast and debt structuring opportunities with, sometimes, daily communications in respect of counterparties. Officers also attend training sessions facilitated by Arlingclose relating to Prudential Code, Treasury Management Code of Practice and Accounting.

13.11 Meetings are held on a quarterly basis with Officers of the Council, including the t Director Financial Management, to discuss treasury management strategies, which may, from time to time, include discussions in regard to enhancement of the service provision if required.

13.12 **Investment of Money Borrowed in Advance of Need**: The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.

13.13 The total amount borrowed will not exceed the authorised borrowing limit of **£442,959 million in 2017/18.** The maximum period between borrowing and expenditure is expected to be two years, although the Authority is not required to link particular loans with particular items of expenditure.

14 Other Options Considered

14.1 The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Group Director of Finance and Corporate Resources, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Reduced risk of losses from credit related defaults
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs will be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs will be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs will be less certain

Appendix A – Arlingclose Economic & Interest Rate Forecast November 2016

Underlying assumptions:

- The medium term outlook for the UK economy is dominated by the negotiations to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU and other countries.

- The global environment is also riddled with uncertainty, with repercussions for financial market volatility and long-term interest rates. Donald Trump's victory in the US general election and Brexit are symptomatic of the popular disaffection with globalisation trends. The potential rise in protectionism could dampen global growth prospects and therefore inflation. Financial market volatility will remain the norm for some time.

- However, following significant global fiscal and monetary stimulus, the short term outlook for the global economy is somewhat brighter than earlier in the year. US fiscal stimulus is also a possibility following Trump's victory.

- Recent data present a more positive picture for the post-Referendum UK economy than predicted due to continued strong household spending.

- Over the medium term, economic and political uncertainty will likely dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment.

- The currency-led rise in CPI inflation (currently 1.0% year/year) will continue, breaching the target in 2017, which will act to slow real growth in household spending due to a sharp decline in real wage growth.

- The depreciation in sterling will, however, assist the economy to rebalance away from spending. The negative contribution from net trade to GDP growth is likely to diminish, largely due to weaker domestic demand. Export volumes will increase marginally.

- Given the pressure on household spending and business investment, the rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes to the negative effects of Brexit on economic activity and, ultimately, inflation.

- Bank of England policymakers have, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further monetary loosening looks less likely.

Forecast:

- Globally, the outlook is uncertain and risks remain weighted to the downside. The UK domestic outlook is uncertain, but likely to be weaker in the short term than previously expected.

- The likely path for Bank Rate is weighted to the downside. The Arlingclose central case is for Bank Rate to remain at 0.25%, but there is a 25% possibility of a drop to close to zero, with a very small chance of a reduction below zero.

- Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	**0.12**
Arlingclose Central Case	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**
Downside risk	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	**0.40**
3-month LIBID rate														
Upside risk	0.05	0.05	0.10	0.10	0.10	0.15	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.18**
Arlingclose Central Case	**0.25**	**0.25**	**0.25**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.29**
Downside risk	0.20	0.25	0.25	0.25	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.34**
1-yr LIBID rate														
Upside risk	0.10	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	**0.23**
Arlingclose Central Case	**0.60**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.60**	**0.70**	**0.85**	**0.90**	**0.90**	**0.90**	**0.65**
Downside risk	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	**0.24**
5-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.39**
Arlingclose Central Case	**0.50**	**0.40**	**0.35**	**0.35**	**0.35**	**0.40**	**0.40**	**0.40**	**0.45**	**0.50**	**0.55**	**0.60**	**0.65**	**0.45**
Downside risk	0.30	0.45	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	**0.47**
10-yr gilt yield														
Upside risk	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.39**
Arlingclose Central Case	**1.15**	**0.95**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.90**	**0.95**	**1.00**	**1.05**	**1.10**	**1.15**	**0.96**
Downside risk	0.30	0.45	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	**0.47**
20-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.39**
Arlingclose Central Case	**1.70**	**1.50**	**1.40**	**1.40**	**1.40**	**1.40**	**1.40**	**1.45**	**1.50**	**1.55**	**1.60**	**1.65**	**1.70**	**1.75**
Downside risk	0.40	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	**0.57**

London Borough of Hackney's Lending Policy - Appendix B

1. Policy for determining which institutions and instruments are included in the lending policy

1.1 The Council will lend to the following types of institutions;

- UK Central Government
- UK Local Authorities
- UK Police and Fire Authorities
- UK Banks and Building Societies
- Corporate Institutions
- Banks domiciled in other countries or their subsidiaries domiciled in the UK providing the country has a sovereign rating of at least AA+ from each of the three credit rating criteria set out below. If the ratings of a parent bank fall below the minimum criteria, no lending will be undertaken with its subsidiaries even if their ratings continue to meet the minimum criteria (excepting Santander UK)
- Supranational Banks
- AAA rated Money Market Funds
- Pooled Funds
- UK registered providers for Social Housing

1.2 The Council will lend using the following types of instruments

- Call and Notice Account
- Fixed Term deposits
- Treasury bills
- Bonds
- Certificate of deposits
- Money Market Funds
- Commercial Papers
- Pooled Funds
- Revolving Credit Facility
- Repurchasing agreements
- Alternatives

1.3 The Council may invest its surplus funds with any of the counterparty detailed in paragraph 1.1, subject to the cash limits (per counterparty) and the time limits shown in table 1.

Table 1: Approved Investment Counterparties and Limits

Credit Rating	Banks Unsecured	The Authority's account bank (Lloyds Bank)	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£20 m 5 years	£25m 5 years	£20 m 5 years	£20 m 50 years	£10 m 20 years	£10 m 20 years
AA+	£20 m 5 years	£25m 5 years	£20 m 4 years	£15 m 25 years	£10 m 10 years	£10 m 10 years
AA	£20 m 4 years	£25m 5 years	£20 m 3 years	£15 m 15 years	£10 m 5 years	£10 m 10 years
AA-	£20 m 3 years	£25m 5 years	£20 m 2 years	£10m 10 years	£7.5 m 4 years	£5 m 10 years
A+	£20 m 2 years	£25m 5 years	£15 m 13 months	£10m 5 years	£7.5 m 3 years	£5 m 5 years
A	£15 m 13 months	£20m 5 years	£20 m 5 years	£5 m 5 years	£7.5 m 2 years	£5 m 5 years
A-	£10 m 6 months	£15m 5 years	£10m 13 months	£5m 5 years	£7.5 m 13 months	£5 m 5 years
BBB+	£5 m 100 days	£10m 2 years	£5m 6 months	£2.5m 2 years	£5 m 6 months	£5 m 2 years
BBB or BBB-	£2.5 m next day only	£5m 6 months	£2.5m 100 days	n/a	n/a	n/a
None	£2 m 6 months	n/a	n/a	n/a	£1m 5 years	£5 m 5 years
Pooled funds	£ 15m per fund but not to exceed 0.5% of the individual fund size.					

Please see appendix 2 for definition of counterparties

1.4 As well as the above limitations, no investment will exceed 10% of total investments at the point of the investment being made. This level will be monitored on an ongoing basis.

1.5 UK Local governments with no credit rating will be treated in line with the credit rating of the UK central government

1.6 For secured investments, where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits.

1.7 Overseas subsidiaries of foreign banking groups will normally be assessed according to the country of domicile of the parent organisation. However, Santander UK plc (subsidiary of Spain's Banco Santander) and Clydesdale Bank plc (a subsidiary of National Australia bank) will be classed as UK banks due to their substantial UK franchise and the arms-length nature of the parent-subsidiary relationship.

1.8 Sovereign credit rating criteria will not apply to investment s in multilateral development banks (e.g. the European Investment bank and the World Bank) or other subsidiaries.

1.9 The table 1 shows the minimum credit rating for the Fitch agency. When determining whether the Council should lend to a counterparty, it must have at least the minimum credit rating shown above for all of the agencies which provide a rating. The lowest available credit rating will be used to determine credit quality

1.10 As well as assessing credit rating as an indicator of risk, the Council will also analyse the following sources of information:

- Credit default Swap
- Equity Prices
- Economic output
- Counterparty's financial Statements and financial ratios
- News

1.11 In order to ensure security of the sums invested and to limit the sums that would be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government organisations) will be £25 million. A group of banks under the same ownership or a group of funds under the same management will be treated as a single organisation for limit purposes. Limits will also be placed on investments in brokers' nominee accounts, foreign countries and industry sectors as set out in the table below:

Table 2: Investment Limits

	Cash limit	**% limits**
Any single organisation, except the UK Central Government	£25m each	10 %
UK Central Government	unlimited	unlimited
Any group of organisations under the same ownership	£25m per group	10%

Any group of pooled funds under the same management	£20m per manager	10%
Negotiable instruments held in a broker’s nominee custodian account	£60m per broker	50%
Foreign countries	£25m per country	10%
Registered Providers	£25m in total	10%
Building Societies	£40m in total	20%
Loans to small businesses	£3m in total	5%
Money Market Funds	£120m in total	75%

Banks Unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

Banks Secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

Registered Providers: Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed.

Pooled Funds: Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Money Market Funds that offer same-day liquidity and aim for a constant net asset value will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Appendix D

TREASURY MANAGEMENT POLICY STATEMENT

1. Approved Activities

In accordance with the Council's Constitution and Delegated Powers, the Group Director of Finance and Corporate Resources and Officers authorised by the Group Director, may arrange all investments, borrowing, repayment of debt outstanding and leasing required and permitted by the Local Government Act 2003.

Borrowing must be contained within the limit determined under the Authorised Limit of the Prudential Code and used solely for the purpose of the Council's statutory functions. Treasury management operations will comply with the CIPFA Code of Practice.

1. Treasury Management Policy Objectives

The Council defines its treasury management activities as:

"The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

The 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 performance measurement techniques, within the context of effective risk management.

The treasury management activities of the Council will be conducted to achieve the following policy objectives: -

(a) To ensure that risk to the Council's financial position is minimised by the adoption of sound debt management and investment practices;

(b) The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

(c) The overall average rate of interest on short-term investments to be greater than the average seven-day LIBID rate (source: Bloomberg), whilst having regard to the security of funds and the minimisation of risk;

(d) To have a policy to repay debt, take opportunities to make premature debt repayments, and restructuring of debt when and where it is advantageous to the Council to do so.

2. Adoption of the CIPFA Code of Practice

The Council has adopted the key recommendations of CIPFA Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 5 of that Code.

Accordingly, this organisation will create and maintain, as the cornerstones for effective treasury management:

- A Treasury Management Policy Statement, stating policies and objectives of its treasury management activities.

- Suitable Treasury Management Practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, prescribing how the Council will manage and control those activities.

The contents of the Policy Statement and TMPs 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 the Council. Such amendments will not result in the Council materially deviating from the Code's key recommendations.

- The 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. An annual outturn report will be submitted to Cabinet after close of the previous year, in the form prescribed in the TMPs.

- The Council delegates responsibility for the implementation, monitoring of its treasury management policies and practices to Audit Sub-Committee, and for the execution and administration of treasury management decisions to the Corporate Director of Finance and Resources, who will act in accordance with the policy statement, TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

3. Investment of Cash Balances

Investment of all balances arising from day to day cash flows, capital receipts, minimum revenue provisions and other financial reserves and provisions will be in accordance with Government regulations or guidelines to produce a maximum return having regard to the security of funds and the minimisation of risk.

The Council’s primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority’s investments followed by the yield earned on investments remain important but are secondary considerations.

The spread of risk will be controlled by reference to the approved criteria and financial limits. Investment liquidity will be structured with regard to cash flow projections maintained under the authority of the Corporate Director of Finance and Resources.

4. Investment Names/Financial Limits

Investments are to be made only to those institutions, which meet the approved criteria for lending, and within the current maximum financial limits as approved, by the Cabinet and Council. Where investments in any of these institutions were made at a time where a higher maximum limit applied, the new maximum limit will be applied as existing investments mature.

Between reports to the Cabinet, the Group Director of Finance and Corporate Resources, under delegated powers, is authorised to revise, and further restrict or relax, the investment names/limits to reflect changes in market sentiment, information and credit ratings.

5. Risk Appetite Statement

The Council’s objectives in relation to debt and investment is to assist the achievement of the Council’s service objectives by obtaining funding and managing the potential debt and investments at a net cost which is as low as possible , consistent with a degree of interest cost stability and a very low risk to sums invested

This means that the Council takes a low risk position but it no totally risk averse. Treasury management staff have the capability to actively manage treasury risk within the scope of the council’s treasury management policy and strategy.

6. Legal Issues

Borrowing and investment will be arranged efficiently through a range of brokers practising in the money markets and, in addition, the Director of Finance and Corporate Resources is authorised to deal directly with counterparties where it is advantageous to do so. The requirements of the Bank of England Non-Investment Products Code (NIPS) (November 2011) will be met in all the above arrangements.

7. Use of Bankers

Approved agreements are currently in place with the Lloyds Bank and the RBS/Natwest Bank for the conduct of banking business for the Council and schools respectively.

The Group Director of Finance and Corporate Resources is authorised to negotiate appropriate changes to the mandates which may be needed to cover any exceptional market circumstances to protect the Council’s finances.

8. Review

The Group Director of Finance and Corporate Resources will report to the appropriate committee on the Treasury Management performance as follows:

- **TM Outturn Report** –

  Frequency - once a year against the TM Strategy and Prudential Indicators approved for the previous financial year, no later than September of the current financial year

  To – Cabinet via the OFP (Overall Financial Position) and Audit Committee

- **TM Half-Year Activity and Performance Report** –

  Frequency – a report on its treasury activity and performance, it is anticipated to be no later than October/November of the current financial year

  To – Cabinet via OFP and Audit Committee

- **TM Quarterly Activity Report** –

  Frequency - report to be submitted on treasury activity for the previous quarter

  To – Audit Committee

- **Ad-hoc** –

  Additional reports will be submitted to the appropriate committee as required, in order to react to extreme fluctuations in market conditions and/or increased levels of treasury activity

The Group Director of Finance and Corporate Resources will make such arrangements as are necessary for monitoring daily activities in the treasury functions.

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Hackney

AUDIT AND ANTI-FRAUD PROGRESS REPORT SEPTEMBER 2016

AUDIT OMMITTEE MEETING DATE 2016/17 **18 January 2017**	**CLASSIFICATION:** **Open** **If exempt, the reason will be listed in the main body of this report.**
WARD(S) AFFECTED **All Wards**	
CORPORATE DIRECTOR **Ian Williams Group Director of Finance and Corporate Resources**	

1. INTRODUCTION AND PURPOSE

1.1 The purpose of this report is for the Audit Committee to consider the performance of the Audit & Anti-Fraud Service up to the end of December 2016, the areas of work undertaken, and information on current developments in Internal Audit and Anti-Fraud as well as statistical information about the work of the investigation teams.

1.2 This is part of the Committee's role in overseeing corporate governance and the report is presented for information and comment.

2. RECOMMENDATION(S)

The Audit Committee is recommended to:

2.1 Note and consider Audit & Anti Fraud's progress and performance to December 2016.

3. REASONS FOR DECISION

3.1 The Public Sector Internal Audit Standards (PSIAS) came into force in April 2013 and applies to all internal audit service providers. These Standards were updated in April 2016.

3.2 PSIAS requires the Chief Audit Executive (or equivalent) to report functionally to a board and to communicate the internal audit service's performance relative to its plan and other matters. For the purposes of the PSIAS the Audit Committee has been designated the 'board'.

4. BACKGROUND

4.1 The Progress Report of the Internal Audit Service is provided in Appendix 1 and includes a summary of:

- Performance against key performance indicator targets
- Internal Audit work carried out up to the end of December 2016
- Implementation of agreed audit recommendations
- School audits

4.2 Details of progress with planned audits are provided in Appendix 2.

4.3 Definitions of the assurance levels used are provided in Appendix 3.

4.4 Summary of the external review conducted by the London Borough of Hillingdon and Action Plan is attached as Appendix 4.

4.5 A statistical summary of the work undertaken by the Anti-Fraud Service is provided in Appendix 5.

4.6 Policy Context

The work of the Internal Audit Service complies with the Public Sector Internal Audit Standards. Internal Audit reviews consider all applicable policies of the Council.

4.7 Equality Impact Assessment

This report does not require an equality impact assessment but where applicable equality issues and adherence to corporate policies would be considered in audit reviews

4.8 Sustainability

Not applicable.

4.9 Consultations

Consultation on the Internal Audit Annual Plan 2016/17 took place with senior management and the Audit Sub Committee.

4.10 Risk Assessment

The work of Internal Audit was based upon a risk assessment which covers all areas of the Council's activity and is continually changing to reflect new initiatives, risk areas and legislation. There was also continuous reassessment of risk as audits were undertaken, plus regular consultation with directors, chief officers and senior managers to ensure that account was taken of any concerns they raised during the year.

5. COMMENTS OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES

5.1 There are no financial implications arising from this report as the costs of providing the internal audit service are included within the Council's base budgets.

5.2 However, an effective internal audit service is important in order to ensure that key internal controls are assessed, thereby aiding the prevention and detection of fraud and other occurrences that could otherwise result in budget pressures.

6. COMMENTS OF THE DIRECTOR OF LEGAL

6.1 The Accounts and Audit Regulations 2015 place obligations on the Council to ensure that its financial management is adequate and effective and that it has a sound system of internal control which includes arrangements for management of risk. An adequate system of internal audit is inherent. This report demonstrates how the Council is fulfilling its obligations in this regard.

6.2 The Audit Committee is asked to note the report on Audit and Anti-Fraud's performance and opinion. There are no immediate legal implications arising from the report.

Appendices

Appendix 1 - Audit & Anti-Fraud Progress Report (December 2016)

Appendix 2 - Progress with planned audits

Appendix 3 - Definitions of audit assurance levels

Appendix 4 - External review of Internal Audit Summary & Action Plan

Appendix 5 - Audit Investigation Service statistics to December 2016

BACKGROUND PAPERS

Publication of Background Papers used in the preparation of reports is required.

Description of document (or None)

None

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Audit & Anti-Fraud Progress Report

31 December 2016

1. INTRODUCTION

The purpose of this report is to present the performance of the Audit & Anti-Fraud Service for the period April to December 2016, the areas of work undertaken and information on current developments in the service area.

2. INTERNAL AUDIT RESOURCES AVAILABLE

2.1 The 2016/17 Internal Audit Annual Plan was based upon the resources available to the Council for an in-house internal audit service.

2.2 The Internal Audit Annual Plan for the year 2016/17 consisted of 77 named audits, four additional pieces of work have been added since the plan was agreed.

2.3 Following implementation of the new structure, the Internal Audit Section now consists of the Head of Internal Audit & Corporate Risk Management, two Principal Auditors and four Auditors.

3. INTERNAL AUDIT KEY PERFORMANCE INDICATORS

3.1 Internal Audit's performance for 2016/17 against key indicators is shown in Table 1.

Objective	KPI	Targets	Actual
Cost & Efficiency To ensure the service provides Value for Money	1) Percentage of planned audits completed to final/draft report stage 2) Average number of days from completion of fieldwork to issue of draft report	1) 90% by year end 2) Less than 15 working days	1) 53.2% are complete or in progress at the end of December 2016 2) 13 days
Quality To ensure recommendations made by the service are agreed and implemented	1) Percentage of significant recommendations made which are agreed 2) Percentage of agreed significant recommendations which are implemented	1) 100% 2) 90%	1) 100% 2) 75% - Fully implemented 9% - partially implemented
Client Satisfaction To ensure that clients are satisfied with the service and consider it to be good quality.	1) Results of Post Audit Questionnaires 2) Results of other Questionnaires 3) No. of Complaints / Compliments	1) Responses meeting expectations or above 2) Satisfactory 3) Actual numbers reported	1) 100% (44% exceeded expectations and excellent) 2) N/A 3) None

Table 1

3.2 As at 31 December 2016 a total of 41 internal audit reviews have been started from the 2016/17 Plan, 13 have been finalised and a further 10 are at Draft Report stage. In addition during this period 9 reviews have been completed from the 2015/16 plan with another two that are at draft stage, two further audits are still in progress.

4. SUMMARY OF INTERNAL AUDIT WORK

4.1 Progress with each 2016/17 planned audit is attached as Appendix 2. This is summarised in Table 2 below:

Stage of audit activity 2016/7 Plan	Number of assignments	% of original plan
Scoping/TOR agreed	13	16.9
Fieldwork in progress	4	5.2
Fieldwork complete (report being drafted)	1	1.3
Draft report issued	10	13
Completed	13	16.9
Total work completed and in progress	**41**	**53.2**
Original Plan	77	
Cancelled and Postponed	7	
Additional requests	4	
Total Revised Plan	**74**	

Table 2

4.2 The table shows that 53.2% of planned assignments have been completed or are in progress.

4.3 The additional audit requests related to a Parking Services International Standards Organisation review, a watching brief on the ITrent new Payroll/HR Implementation, a review of new procedures relating to grant applications, and advice to the PAUSE initiative regarding petty cash/procurement cards use.

4.4 Each completed audit is given an overall assurance grading. These are categorised 'Significant', 'Reasonable', 'Limited' or 'No' assurance. The assurances given so far this year are included in Appendix 2. Full definitions can be found at Appendix 3.

4.5 Of the 13 audits completed, five received an assurance grading of significant, seven reasonable and one limited. There were also 9 audits completed from the 2015/16 plan during 2016/17, these were given assurance ratings of significant (2), reasonable (5) and limited (2).

4.6 Recommendations are made to manage the level of risk where internal audit reviews identify areas for improvement. These are categorised as 'Critical', 'High', 'Medium' or 'Low' priority. The numbers of Critical, High and Medium recommendations issued up to 31 December 2016 are shown in Table 3 below.

Categorisation of Risk	Definition	Number 2016/17 Plan	Number 2015/16 Plan not previously reported
Critical	Major issues that we consider could have a significant impact upon, not only the system, function or process objectives, but also the achievement of the Council's objectives.	0	0
High	Major issues that we consider need to be brought to the attention of senior management.	1	4
Medium	Important issues which should be addressed by management in their areas of responsibility.	58	20

Table 3

5. SCHOOLS

5.1 Audits of school's progress has been reported to the Hackney Learning Trust (HLT) within the Children's, Adults and Community Health Directorate. In addition, progress with the implementation of recommendations agreed during 2015/16 and this year to date have been followed up and reported.

5.2 As at 31 December 2016, audits were completed at eight schools and children's centres with a further six at draft report stage and one where fieldwork was complete. The three remaining schools are scheduled for completion in the final quarter of 2016/17. The audits focus on the existence and compliance with key financial controls and the adequacy of governance arrangements.

5.3 Assurances provided for the school assignments completed as part of the 2016/17 Internal Audit Annual Plan are shown in Table 4 below. A comparison with assurances provided in previous audits is also shown. It needs to be noted that these audits are still at draft stage and a response from the schools is awaited.

School	Assurance for 2016/17	Assurance in previous audit	Direction of travel	2016/17 Recommendations		
				High	Medium	Low
Baden Powell Primary School	Limited	Reasonable	⇩		16	
Benthal Primary School	Reasonable	Limited	⇧		6	1
St Mary's Primary School	Significant	Limited	⇧		2	2
St Paul's with St Michael Primary School	Reasonable	Reasonable	⇔		6	
Thomas Fairchild Primary School	Reasonable	Significant	⇩		7	
New Regent's College PRU	Reasonable	NA	NA	1	2	
St John Of Jerusalem	Reasonable	Significant	⇩		8	
Woodbury Down Children's Centre	Significant	Reasonable	⇧		1	1

Table 4

5.4 Table 4 shows that the direction of travel decreased for three schools, remained the same for one and improved for three. No previous rating is available for New Regent's College as this is a new unit in its current form.

6. IMPLEMENTATION OF RECOMMENDATIONS

6.1 In order to track the Council's attitude towards improving the control environment, progress with implementation of agreed internal audit recommendations are tracked. The results of this work for the 'High' priority recommendations, from audits undertaken from 2014/15 to date in 2016/17, that were due to be implemented by 31 December

2016, are presented in the Table 5.

Directorate	Implemented (including no longer relevant)	Partially Implemented	Not implemented or no response	Total
Children's, Adults and Community Health	6			6
Neighbourhoods and Housing	1	1		2
Finance & Corporate Resources	31	6	9	46
Chief Executive's	1	1		2
Schools	29		6	35
Total number	**68**	**8**	**15**	**91**
Percentage	**75%**	**9%**	**16%**	**100%**

Table 5

6.2 The Council's target for 2016/17 is that 90% of 'High' priority recommendations should be implemented in accordance with the agreed timescale. The implementation rate currently stands at 75% fully implemented. A further 9% have been partially implemented.

6.3 Meetings have been held with the new Director, ICT and other senior managers in ICT to discuss progress that has been made with ICT high and medium priority recommendations. At this point only five high priority recommendations remain outstanding, with a further two pending full validation by internal audit and eight that have been partially implemented.

(i) ICT: Disaster Recovery (DR): There are two outstanding high recommendations which relate to a locational risk assessment for all servers and daily back up reports. A disaster recovery site has been set up at Stoke Newington Municipal

Offices and a test was carried out over the 2016 Easter weekend on the Mosaic system (Care Services). Further tests were planned for the December bank holiday weekend. These recommendations remain outstanding or partially complete. The latest position on these is being verified.

(ii) Third Party Access: There are three outstanding high priority recommendations. These relate to establishing criteria for access in each system, establishing asset security classifications and logical access network controls. Further discussion is taking place on these to see if these recommendations remain relevant.

6.4 There were 443 'Medium' priority recommendations followed up. Of these, 88 % were assessed as implemented and 3% partially implemented. Details are shown in the following table:

Directorate	Implemented (including no longer relevant)	Partially Implemented	Not implemented /No Response	Total
Children's, Adults and Community Health	27		3	30
Neighbourhoods and Housing	22	2	1	25
Finance & Corporate Resources	71	6	14	91
Chief Executive's	10		2	12
Schools	261	5	19	285
Total number	**391**	**13**	**39**	**443**
Percentage	**88%**	**3%**	**9%**	**100%**

7. DEVELOPMENTS WITHIN INTERNAL AUDIT

7.1 Like all services across the Council the Audit and Anti-Fraud Service has been affected by the Delegated Powers Report regarding the Council Restructure and requests for voluntary redundancies. The current position is that the Director, Audit and Anti-Fraud post will be deleted and there has been a loss of one Principal Auditor post and one Audit Investigator post under the voluntary redundancy scheme. The current Head of Internal Audit has taken voluntary redundancy at the end of December 2016 but will be replaced in due course. The deletion of the post of Director, Audit and Anti-Fraud, due to take effect at the end of April 2017 meant that a restructure of the Audit and Anti-Fraud Services was needed to ensure the impact of these changes is kept to the minimum and that there are sufficient management resources within the service. The new structure was consulted upon in line with corporate procedures and signed off at the end of September 2016. Recruitment to the newly created Corporate Head of Internal Audit, Anti-Fraud & Risk Management has taken place, recruitment to the new Head of Internal Audit & Corporate Risk Management is currently underway.

7.2 The Internal Audit Service uses a contractor to carry out the ICT reviews. Mazars LLP has been awarded a contract to carry out five ICT reviews this year. Mazars (who took over Deloittes Public Sector Internal Audit Service about two years ago) are well known across the London Boroughs and have a number of contracts with other London Boroughs.

7.3. The Public Sector Internal Audit Standards (PSIAS) require under the Quality Assurance programme that an External Review of the Internal Audit Service must be carried out every five years. To satisfy this new requirement the London Boroughs have joined together and are conducting peer reviews. Each review is carried out by a suitably qualified senior officer. During April 2016 the London Borough of Hillingdon conducted a review into |Hackney's Internal Audit Service and the summary results of this review are included in Appendix 4. Overall the conclusion was that we "Generally Conform" to the standards. An Action Plan of changes made or planned to take account of the comments in the review is included in Appendix 5. We have sent our comments on the report back to Hillingdon and we are still awaiting the Final Report.

8. ANTI FRAUD SERVICE

8.1 The Anti-Fraud Service consists of three distinct teams; the Audit Investigation Team (AIT), the Tenancy Fraud Team (TFT) and the recently created Pro-Active Anti-Fraud Team (PAFT). Management capacity across the service is being addressed as part of the AAF restructure.

8.2 We have experienced some difficulty in recruiting to vacant posts on the TFT in recent months but from June onward the team was fully resourced. This has inevitably had a detrimental effect on the rate of recovery of illegally sublet properties although the hard work and dedication of the investigators in post did still result in the recovery of 35 properties, the cancellation of 26 housing applications and 6 right to buy applications during the reporting period.

8.3 Following the successful bid by AAF for grant funding from central government for anti-fraud initiatives Hackney created the PAFT which consists of three officers, this funding was only available for one year. Hackney used these additional investigation resources to focus on project management of the Hackney Homes decent homes and planned maintenance contracts. This is an innovative use of resources and is being watched carefully by the anti-fraud community. Work is still ongoing however, the results to date provide sound evidence that using resources in this area of activity can have a significant financial benefit. As a result of the outstanding results achieved this team has been permanently established in the new structure of AAF.

8.4 Statistical information relating to all the work of the Council's Anti-Fraud Teams are attached as Appendix 5.

9. CONCLUSIONS

9.1 This report provides details of the performance of the Council's Internal Audit and Anti-Fraud Services. It seeks to give reassurance that the service is being delivered to meet statutory responsibilities and is continually seeking to improve the standards of its service.

9.2 Using the cumulative knowledge and experience of the systems and controls in place, including the results of previous audit work and the work undertaken to date within 2014/15, 2015/16 and this year to date, it is considered that overall, throughout the Council there continues to be a sound internal control environment.

Appendix 2

Internal Audit Annual Plan 2016/17 Progress to December 2016 (including 2015/16 audits not previously reported)					
Code	**Internal Audit**	**High Priority Recs**	**Medium Priority Recs**	**Audit Assurance**	**Status**
2015/16 Audits not previously reported					
HCS08	Highways Maintenance Contracts		2	**Significant**	Complete
FR04	Banking Contract and Charges		3	**Reasonable**	Complete
FR10	NNDR		2	**Reasonable**	Complete
FR12	Council Tax				Draft
FR16	Property Services Procurement Procedures		4	**Reasonable**	Complete
FR17	Grey Fleet	1	1	**Limited**	Complete
ICT03	Landesk Authorisation			**Significant**	Complete
ICT07	Resourcelink	2	3	**Limited**	Complete
HH08	3 x TMO's				Draft
HH09	Neighbourhood Offices	1	2	**Reasonable**	Complete
HH14	Leaseholder Charges		3	**Reasonable**	Complete
HLT02	Fees For Children Centres				In Progress
LHRRS03	Payroll				In Progress
LHRRS02	Health and Safety procedures				In Progress
HS01	Leaseholders Buyback				C/f to 2017/18
FR14	Marketing of Commercial Property				Draft
All (Cross Cutting)					
1617LBH01	Annual Governance Statement			**Significant**	Complete
1617LBH02	Purchasing/Procurement Cards - Follow Up				Planned Quarter 4
1617LBH03	Transparency Code				Planned Quarter 4
1617LBH04	Management of Capital Contracts				Planned Quarter 4
Chief Executives					
1617CE01	DBS Checks				TOR agreed
1617CE02	Payroll – additional payments				TOR agreed
1617CE03	Electoral Services				TOR agreed
GROUP DIRECTOR CHILDREN, ADULTS AND COMMUNITY HEALTH					
Adult Services/Public Health					
1617CACH01	Appointeeships - Client Payment System		5	**Reasonable**	Complete
1617CACH02	Day Care Services (Grant Funded)				Planned Quarter 4
1617CACH03	Deprivation Of Liberty Safeguards		3	**Reasonable**	Complete
1617CACH04	ASC Contracts Follow up				Planned Quarter 4
1617CACH05	Care Assessments				Planned Quarter 4
Children & Families Services					
1617CACH06	Mosaic previously (Framework i) IT audit				Planned Quarter 4
1617CACH07	Overstayers (OFIT)				Draft
1617CACH08	Leaving Care				Planned Quarter 4
Education and Schools					
1617CACH09	Overview of school findings and benchmarking				Draft
1617CACH10	SEN				Planned Quarter 4
1617CACH11	HLT IT Purchasing				Draft

Appendix 2

Code	Internal Audit	High Priority Rec's	Medium Priority Rec's	Audit Assurance	Status
Internal Audit Annual Plan 2016/17 Progress to December 2016 (including 2015/16 audits not previously reported)					
SCHOOLS					
1617SCH01	Baden Powell Primary School		16	**Limited**	Complete
1617SCH02	Benthal Primary School		6	**Reasonable**	Complete
1617SCH03	Berger Primary School				Planned Quarter 4
1617SCH04	Betty Layward				Draft Report
1617SCH05	De Beauvoir Primary School				Draft Report
1617SCH06	Gainsborough Community Primary School				Postponed
1617SCH07	Harrington Hill Primary School				Planned Quarter 4
1617SCH08	Holmleigh Primary School				Postponed
1617SCH09	Parkwood Primary School				Draft Report
1617SCH10	Princess May				Postponed
1617SCH11	Saint Scholastica RC Primary				Draft Report
1617SCH12	Southwold School				Cancelled – completed with Orchard Primary School in 2015/16
1617SCH13	Springfield Community School				Planned Quarter 4
1617SCH14	St John Of Jerusalem		8	**Reasonable**	Complete
1617SCH15	St Dominic's Catholic Primary				Postponed
1617SCH16	St Mary C of E Primary			**Significant**	Complete
1617SCH17	St Paul with St Michaels primary		6	**Reasonable**	Complete
1617SCH18	Thomas Fairchild Community School		7	**Reasonable**	Complete
1617SCH19	William Patten Primary School				Draft Report
1617SCH20	Woodberry Down Primary				Fieldwork Complete
CHILDREN CENTRES					
1617SCH21	Wentworth CC				Draft Report
1617SCH22	Woodberry Down CC		1	**Significant**	Complete
SPECIAL SCHOOL/PRU					
1617SCH23	The Garden with Horizon				Draft Report
1617SCH24	New Regent College Upper/Lower PRU	1	2	**Reasonable**	Complete
GROUP DIRECTOR - FINANCE AND CORPORATE RESOURCES					
Financial Management					
1617FCR01	Pension Investments				TOR agreed
1617FCR02	Creditors/ Central Payments Team				TOR agreed
1617FCR03	Asset Management				Planned Quarter 4
1617FCR04	Accounts Receivable				Planned Quarter 4
Strategic Property					
1617FCR05	LBH Building Maintenance				Planned Quarter 4
1617FCR07	Vehicle Sales and Disposals				Planned Quarter 4
Procurement					
1617FCR06	Tendering Procedures				Planned Quarter 4

Appendix 2

Internal Audit Annual Plan 2016/17
Progress to December 2016 (including 2015/16 audits not previously reported)

Code	Internal Audit	High Priority Rec's	Medium Priority Rec's	Audit Assurance	Status
Customer Services					
1617FCR08	Council Tax Reduction Scheme				In Progress
1617FCR09	Revenues and Benefits – NNDR- Consolidation				Scoping
1617FCR10	Revenues and Benefits - Housing Benefit				In Progress
1617FCR11	Council Tax – Consolidation				Scoping
1617FCR12	Housing Needs (Choice Based lettings)				Planned Quarter 4
1617FCR13	Temporary accommodation (B&B)				TOR agreed
1617FCR14	Deposit Guarantee scheme/Cash Incentive Scheme				Planned Quarter 4
Director ICT					
1617ICT01	Universal Housing				Planned Quarter 4
1617ICT02	Mosaic (previously Framework I) Post Implementation Review				TOR agreed
1617ICT03	Housing Needs Payment System - Post Implementation Review				Planned Quarter 4
1617ICT04	CRM				Planned Quarter 4
1617ICT05	One Account - Post Implementation Review				Planned Quarter 4
1617ICT06	IT Recruitment and retention				Planned Quarter 4
1617ICT07	IT Governance				In Progress
GROUP DIRECTOR NEIGHBOURHOODS AND HOUSING					
Regeneration					
1617NH01	Regeneration - Contract letting and Monitoring				In Progress
Housing					
1617NH02	Ground work estate Maintenance (Stores)				Cancelled
1617NH03	Resident Participation Team (Renting of Halls income)				Scoping
1617NH04	Rent Collection				Planned Quarter 4
1617NH05	TMO (rolling Programme)				Planned Quarter 4
1617NH06	Right to Buy		2	Significant	Complete
1617NH07	Complaints				Planned Quarter 4
1617NH08	Voids				Planned Quarter 4
1617NH09	Contract Monitoring/Contingency				Planned Quarter 4
Public Realm					
1617NH10	Parking Appeals				Scoping
1617NH11	Waste Management – Recycling				Planned Quarter 4
1617NH12	Highways Assets				Scoping
1617NH13	Car Parking Income (Pay and Display)				TOR Agreed
1617NH14	Street Lighting Contract				Planned Quarter 4
16/17NH+	Parking ISO Procedures		2	Significant	Complete

Definitions of Audit Assurances

The **Overall Assurance** given in respect of an audit is categorised as follows:

Level of assurance	Description	Link to risk ratings
Significant	Our work found some low impact control weaknesses which, if addressed would improve overall control. However, these weaknesses do not affect key controls and are unlikely to impair the achievement of the objectives of the system. Therefore we can conclude that the key controls have been adequately designed and are operating effectively to deliver the objectives of the system, function or process.	There are two or less medium-rated issues or only low rated or no findings to report.
Reasonable	There are some weaknesses in the design and/or operation of controls which could impair the achievement of the objectives of the system, function or process. However, either their impact would be less than critical or they would be unlikely to occur.	There is no more than one high priority finding and/or a low number of medium rated findings. However, where there are many medium rated findings, consideration will be given as to whether the effect is to reduce the assurance to Limited.
Limited	There are some weaknesses in the design and / or operation of controls which could have a significant impact on the achievement of key system, function or process objectives but should not have a significant impact on the achievement of organisational objectives. However, there are discrete elements of the key system, function or process where we have not identified any significant weaknesses in the design and / or operation of controls which could impair the achievement of the objectives of the system, function or process. We are therefore able to give limited assurance over certain discrete aspects of the system, function or process.	There are up to three high-rated findings. However, if there are three high priority findings and many medium rated findings, consideration will be given as to whether in aggregate the effect is to reduce the opinion to No assurance.
No	There are weaknesses in the design and/or operation of controls which [in aggregate] have a significant impact on the achievement of key system, function or process objectives and may put at risk the achievement of organisation objectives.	There are a significant number of high rated findings (i.e. four or more).

SUMMARY ASSESSMENT

PSIAS Area	Assessment				Comments
	Does not conform	Partially conforms	Generally conforms	Fully conforms	
Purpose & Positioning					
Remit				X	
Reporting lines			X		
Independence			X		
Risk based plan		X			See items 1 – 3 on Action Plan
Other assurance providers			X		See items 2 on Action Plan
Structure & Resources					
Competencies				X	
Technical training & development			X		See item 4 on Action Plan
Resourcing			X		
Performance management				X	
Knowledge management			X		
Audit Execution					
Management of the IA function			X		See item 5 on Action Plan
Engagement planning			X		See item 8 on Action Plan
Engagement delivery				X	See item 6 on Action Plan
Reporting			X		See item 7 on Action Plan
Impact					
Standing & reputation of IA					Unable to conclude
Impact on organisational delivery					Unable to conclude
Impact on governance, risk, & control					Unable to conclude

Overall			**X**		

External Review of Internal Audit by London Borough of Hillingdon

Management Action Plan

Priority Scale: H = High, M = Medium, L=Low

No.	Recommendations	Potential Risk / Impact	Priority	Management Comments	Accountable / Responsible Officer	Agreed Completion Date
1	**Risk Assessment** To use the risk assessment framework within Covalent to assess impact/likelihood in the IA Planning	The Audit Plan may not be focusing on the highest risk areas	M	Covalent is used to carry out the risk assessment on each item of the Audit Universe.	Carole Murray/Paul Thirkettle/Matt Powell	December 2016 Completed
2	**Review of Charter and Strategy** Review and update the Charter and Strategy in light of this review, the 2016 PSIAS and the restructure.	The Charter/Strategy may not conform to the PSIAS, best practice or current practices	M	This will be carried out and the documents amended accordingly.	Carole Murray/Tracy Barnett	March 2017
3	**Cyclical Approach to the Audit of Schools** To consider a more risk assessed method of the audit of schools	Resources are not targeted at the highest risk areas	M	At the moment we are meeting the requirements of Hackney Learning Trust. Alternative approaches have been raised with them including greater use of self-assessments and cross cutting audits, a response is still awaited. Any changes agreed will be reflected in the 2017/18 Plan.	HIA	April 2017
4	**Refresher Training** All auditors to review what on line training is available and ensure that they are up to date in completing the modules. DP and Information Security to be carried out every two/three years. Training undertaken to be logged on Training	Auditors may not be aware of current regulations or be up to date	M	Training needs are picked up during the annual appraisal process. Auditors/managers have been reminded of the need to ensure any training	All auditors	Ongoing

	spreadsheet and any evidence saved in this e docs folder			undertaken is logged on the central training record.		
5	**Signing off Working Papers** All testing summary sheets to have space for the HIA /Principal auditor to enter their name and date of review. This will be completed by the HIA or Principal Auditors when they review the file	Non compliance with PSIAS	L	Implemented.	All Auditors and HIA	Ongoing
6	**Cross Referencing of Working Papers** All working papers to be clearly cross referenced to the Control Evaluation and Test Summaries	Non Compliance with PSIAS	L	This will be checked by the HIA on review.	All Auditors	Ongoing
7	**Evidence of Review and Feedback given** Review template to be used between the HIA and Auditor and saved into the relevant eDocs folder	Appears that there is non compliance with the standards	L	Historically feedback was provided verbally or by email. A template has now been created to record the feedback. This is saved into a newly designated folder	HIA and all auditors	Ongoing
8	**Review of the contents of the Audit Terms of Reference** Terns of references containing explicit Service Objectives are to be researched and consideration given as to how better to include this into our own terms of reference.	Service objectives are not understood	L	Examples of Terms of References including this have been requested. Parking Services – On and Off street Parking TOR included Service Objectives.	HIA	March 2017

Anti-Fraud Service

Statistical Information 1 September to 31 December 2016

1. Investigations Referred

The number of non-benefit related investigations undertaken by the Anti-Fraud Service has increased significantly in recent years, from 150 in 2009/10 to 714 in 2015/16. As new fraud threats have emerged, investigative responses have been developed in partnership with other Council teams and external partners.

Group	Department	Number of Cases Referred in Period	Number of Cases Closed in Period	Cases Currently Under Investigation	Referrals 2016/17 to date	Referrals 2015/16
Neighbourhoods & Housing (N&H)	Neighbourhoods & Housing	2	2	2	6	n/a
	Hackney Homes	4	2	14	11	14
	Housing	0	1	0	n/a	0
	Tenancy Fraud	138	137	417	292	413
	Parking	70	44	53	146	166
Children, Adults & Community Health (CACH)	Children, Adults & Community Health	2	1	2	4	n/a
	Health & Community Services (H&CS)	0	1	3	n/a	11
	Children & Young People's Services	0	0	0	n/a	3
	Overstaying Families Intervention Team (OFIT)	48	6	82	74	89
	The Learning Trust	0	2	3	1	6
Finance & Corporate Resources (F&CR)	Finance & Resources	2	6	7	10	11
Chief Executive Directorate	Chief Executive Directorate	0	0	0	0	n/a
	Chief Executive's	0	0	1	n/a	1
	Legal, HR & Regulatory Services	0	0	0	n/a	0
Total		**266**	**202**	**584**	**544**	**714**

Table 1

Note 1: Departments from the old Council structure are shown under the new Group Directorates that most closely approximate to them. While the large majority of pre-2016/17 investigations listed above are appropriate to the Group Directorates shown, there will be isolated exceptions (for example, some H&CS operations are now performed by N&H).

Note 2: Fraud reporting going forward will be at Group Directorate level, with additional detail being provided for areas that were recently separate organisations (Hackney Homes and The Learning Trust) and specific Anti-Fraud projects (Tenancy, Parking and OFIT).

Note 3: Cases closed and under investigation may include those carried forward from previous reporting periods.

2. Fraud Enquiries

Investigative support is provided to other bodies undertaking criminal enquiries, including the Police, Home Office and other Local Authorities. The team also supports other LBH teams to obtain information where they do not have direct access and it is available under the Data Protection Act crime prevention and detection gateways.

Source	Number of Cases Referred in period	Number of Cases Closed in period	Cases Currently Under Investigation	2016/17 to date	2015/16
Internal	198	198	0	214	293
Other Local Authorities	18	18	0	47	75
Police	10	10	0	28	103
Immigration	1	1	0	2	7
DWP	299	299	0	612	910
Other	6	4	2	20	14
Total	**532**	**530**	**2**	**923**	**1,402**

Table 2

3. National Fraud Initiative (NFI) Matches

The NFI is a biennial data matching exercise, the majority of datasets were most recently received in January 2015. Matches are investigated by various LBH teams over the 2 year cycle, AAF investigate some matches and coordinate the overall response. The total number of matches includes 4603 outcomes that are identified as high priority, participants are expected to further risk assess the results to determine which are followed up.

Type of Match	Number of Matches – Total & (recommended)	Cases Currently Under Investigation	Number Matches Cleared NFI2014	Number Matches Cleared NFI2012
Payroll	137 (51)	10	35	13
Housing Benefit	8,198 (2,738)	3	19	655
Housing Tenants	1,416 (583)	31	343	64
Right to Buy	261 (256)	11	224	18
Housing Waiting List	3,201	34	62	387
Concessionary travel / parking	187 (146)	125	22	176
Creditors	5,173 (571)	0	4,724	0
Pensions	175 (82)	4	169	177
Council Tax	10,936	304	4,532	2,854
Other	261 (176)	0	34	39
Total	**29,945 (4,603)**	**522**	**10,164**	**4,383**

Table 3

On 1 December 2014, Hackney's Housing Benefit Counter Fraud Team was transferred to the Department for Work & Pensions (DWP) as part of their Single Fraud Investigation Service. Whilst the Council is no longer responsible for undertaking Housing Benefit investigations, Audit & Anti-Fraud (AAF) are required to undertake a large volume of enquiries in support of DWP investigations.

DWP advised Hackney that financial support would continue to be provided to the Council to support their Housing Benefit investigations in 2016/17. Hackney has continued to fund a part time resource to address specific investigation enquiries, but it is insufficient to allow for review of the thousands of benefit concerns identified by the NFI. The officers that previously undertook this work have all transferred to DWP. The funding provided by DWP covers only 65% of the cost of the remaining part time post.

4. Analysis of Outcomes

Investigations can result in differing outcomes from prosecution to no further action. Table 4 below details the most common outcomes that result from investigations conducted by the Anti-Fraud Teams.

Outcome	Reporting Period	2016/17 to date	2015/16 total
Disciplinary action	4	7	14
Resigned as a result of the investigation	1	4	11
Referred to Police or other external body	9	18	28
Prosecution	2	3	4
Referred to Legal Services	1	2	3
Investigation Report/ Management Letter issued	6	13	19
Council service or discount cancelled	18	43	80
Blue Badges recovered	24	43	63
Other fraudulent parking permit recovered	14	32	31
Parking misuse warnings issued	18	38	36
Penalty Charge Notice (PCN) issued	17	36	47
Vehicle removed for parking fraud	16	32	32
Recovery of tenancy	35	76	104
Housing application cancelled or downgraded	26	36	57
Legal action to recover tenancy in progress	103	103	n/a
Right to Buy application withdrawn or cancelled	6	14	10

Table 4

<u>Disciplinary Action</u>
As a result of investigations conducted by the Audit Investigation Team (AIT) disciplinary action was taken against four staff in the period 1 September - 31 December 2016 for the following reasons: -

- Two linked instances of misuse of LBH equipment
- One false declaration on a job application
- One instance of misuse of a Council computer system

<u>Prosecution</u>
During the same period two people were prosecuted for the following reasons: -

- Fraudulent receipt of a deceased former Hackney employee’s pension
- Fraudulent use of a visitor parking permit

<u>Other</u>
A separate investigation identified an overpayment of a Hackney pension to a former employee who had passed away in Italy. No fraud was involved, a sum of £28,000 was recovered.

5. Financial Losses as a Result of Fraud

The most apparent consequence of many frauds is a financial loss however, it needs to be noted that it is not always possible to put a value in monetary terms.

In many cases the financial loss accounts for only a small amount of the total cost of the fraud, with the additional amount comprising intangibles such as reputational damage, the cost of the investigation and prosecution, additional workplace controls, replacing staff involved and management time taken to deal with the event and its' aftermath.

The following are estimates of the monetary cost for some of Hackney's priority investigation areas based (where relevant) upon the values that the Audit Commission previously calculated as a reasonable estimate of the value nationwide:

5.1 <u>Tenancy Fraud Team (TFT)</u>

During the period September to December 2016 a total of 35 tenancies have been recovered by the TFT. Using the Audit Commission figure for the estimated cost of temporary accommodation of £18,000pa, this equates to a saving of £630,000.

In the same period 26 housing applications have been cancelled following TFT review. These investigations help to ensure that Hackney's social housing is only allocated to those in genuine need. The Audit Commission has variously reported the potential benefit to the public purse of each cancelled application as between £4,000 and £18,000, so the value of this work represents a potential saving of between £104,000 and £468,000.

During this period six Right to But (RTB) applications were cancelled following investigation. Each RTB represents a discount of between £75,000 and £102,700 on the sale of a Council asset. The value of discount for the RTB's declined represents a total of between £450,000 and £616,200.

5.2 <u>Overstaying Families Intervention Team (OFIT)</u>

An average weekly support package valued at c£348 is paid to each family supported (applicable to the majority of the 'service cancelled' category in Table 4). Following AAF investigation 17 support packages were cancelled or refused between April and August 2016. This equates to a saving in the region of £5,916 per week, if these had been paid for the full financial year it would have cost Hackney approximately £308,000.

5.3 <u>Parking Concessions</u>

The Audit Commission estimated the cost of each fraudulently used Blue Badge to be £100 (equivalent to on-street parking costs in the Hackney Central parking zone for less than 39 hours). Fees of £65 are also payable where a Penalty Charge Notice is issued as part of the enforcement process, or £265 if the vehicle is also removed. In this period AIT recovered 24 Blue Badges, this equates to £2,400 plus enforcement charges of £4,305.

In addition to the work undertaken on Blue Badge abuse, investigations have also been undertaken into misuse of residents and visitor parking permits. During the reporting period 14 fraudulently used residents/visitor parking permits were recovered. It is not possible to quantify the value of this abuse. However, the cost for these types of fraud is far greater in terms of genuine blue badge holders and residents being denied the use of dedicated parking areas, and the reputational damage that could be caused to Hackney if we were seen not to be tackling the abuse of parking concessions within the borough.

5.4 Pro-Active Anti-Fraud Team (PAFT)
AAF successfully bid for government funding for new counter fraud initiatives. The funding, allocated for 2015/16 only, has enabled AAF to focus investigation resources on the project management of the Hackney Homes decent homes and planned maintenance contracts. Currently, a significant sum of money has been retained against a contract because works claimed to have been carried out are under dispute. Evidence of substantial over-claiming for work is emerging which may lead to further financial claims by Hackney.

There are ongoing enquiries involving possible criminal matters therefore it is not possible to expand here on this important work at this time.

6. Matters Referred from the Whistleblowing Hotline
All Hackney staff (including Hackney Homes and Hackney Learning Trust) can report concerns about suspected fraud and other serious matters in confidence to a third party whistleblowing hotline. Other referral methods are available (and may indeed be preferable from an investigatory perspective), however, the hotline allows officers to raise a concern that they might not otherwise feel able to report. No referrals were received via the hotline in the reporting period.

7. Regulation of Investigatory Powers Act (RIPA) Authorisations
RIPA is the legislation that regulates the use of surveillance by public bodies. Surveillance is one tool that may be used to obtain evidence in support of an investigation, where it can be demonstrated to be proportionate to the seriousness of the matter concerned, and where there is no other less intrusive means of obtaining the same information.

Because surveillance has the potential to be a particularly intrusive means of evidence gathering, the approval process requires authorisation by a nominated senior Hackney officer (Director/Group Director/Chief Executive) and approval by a magistrate. Although Hackney will use its surveillance powers conferred by RIPA when it is appropriate to do so, no application was made in the current financial year.

8. Proceeds of Crime Act (POCA) Investigations
POCA investigations can only be undertaken by accredited officers, as are currently employed by AAF and Trading Standards. POCA supports the Council's investigation processes in three principal ways: -

- Providing access to financial information in connection with a criminal enquiry, subject to approval by Crown Court by way of a **Production Order**

- Recognising that offenders should not be able to benefit from their criminal conduct through the use of **Confiscation Orders**. These allow the courts to confiscate any benefit that a defendant may have received as a result of their crime.

- Under the confiscation process the courts are also able to ensure that victims are compensated for their loss by way of a **Compensation Order.**

Delays can often occur in receiving payments particularly if disposal of assets have to take place in order to satisfy a compensation or confiscation order. Hackney received £3,584.95 from the Home Office as a result of POCA work in this period which was largely attributed to planning cases investigated by the Trading Standards team.

Type of Order	Number authorised in period	2016/17 to date	2015/16 total
Production	3	5	5
Compensation	0	0	0
Confiscation	0	2	0
Total	**3**	**7**	**5**

Table 6

Hackney

APPOINTMENT OF EXTERNAL AUDITOR	
AUDIT COMMITTEE MEETING DATE 2016/17 **18 January 2017**	**CLASSIFICATION:** **Click Here To Select** **If exempt, the reason will be listed in the main body of this report.**
WARD(S) AFFECTED **All Wards**	
GROUP DIRECTOR **Ian Williams Group Director Finance & Corporate Resources**	

1. INTRODUCTION AND PURPOSE

Following the demise of the Audit Commission new arrangements were needed for the appointment of external auditors. The Local Audit and Accountability Act 2014 requires authorities to either opt in to the appointing person regime or to establish an auditor appointment panel and conduct their own procurement exercise. This report sets out and recommends that the Council opt in to the appointing person arrangements.

2. RECOMMENDATION(S)

To recommend to Full Council that this Council opts in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors

3. REASONS FOR DECISION

It is likely that a public sector wide procurement conducted by PSAA will produce better outcomes for the Council than any procurement we undertook by ourselves or with a limited number of partners. Use of the PSAA will also be less resource intensive than establishing an auditor panel and conducting our own procurement.

Regulation 19 of the Local (Appointing Persons) Regulations 2015 requires that a decision to opt in must be made by Full Council (authority meeting as a whole). To comply with this regulation Audit Committee is asked to make the recommendation above to Council.

4. BACKGROUND

As part of closing the Audit Commission the Government novated external audit contracts to PSAA on 1 April 2015. The contracts were due to expire following conclusion of the audits of the 2016/17 accounts, but could be extended for a period of up to three years by PSAA, subject to approval from the Department for Communities and Local Government.

In October 2015 the Secretary of State confirmed that the transitional provisions would be amended to allow an extension of the contracts for a period of one year. This meant that for the audit of the 2018/19 accounts it would be necessary for authorities to either undertake their own procurements or to opt in to the appointed person regime.

There was a degree of uncertainty around the appointed person regime until July 2016 when PSAA were specified by the Secretary of State as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. The appointing person is sometimes referred to as the sector led body and PSAA has wide support across most of local government.

PSAA were originally established to operate the transitional arrangements following the closure of the Audit Commission and is a company owned by the Local Governments Association's Improvement and Development Agency (IDeA).

It has been confirmed that the date by which authorities will need to opt in to the appointing person arrangements is 9th March 2017 and hence this report to January Audit Committee in order that the January Council meeting can consider the recommendation ahead of this deadline,

The main advantages of using PSAA are set out in its prospectus (see Appendix 1) and are summarised below. The converse of these can be viewed as the disadvantages if the Council was to decide to undertake its own procurement.

- Assure timely auditor appointments
- Manage independence of auditors
- Secure highly competitive prices
- Save on procurements costs
- Save time and effort needed on auditor panels
- Focus on audit quality
- Operate on a not for profit basis and distribute any surplus funds to scheme members.

4.1 Policy Context

The recommendation within this report helps to ensure that resources continue to be used efficiently and that resources available to maintain frontline services are maximised.

4.2 Equality Impact Assessment

This report deals with the appointment of the Council's external auditors and will not affect any groups of people

4.3 Sustainability

Not applicable

4.4 Consultations

The PSAA has consulted widely with s151 Officers within London and across the country.

4.5 Risk Assessment

As set out in this report, use of the PSAA minimises the risks inherent in undertaking our own procurement.

5. **COMMENTS OF THE GROUP DIRECTOR OF FINANCE & CORPORATE RESOURCES**

If PSAA is not used additional resources would likely be required to establish an auditor panel and conduct our own procurement. Until either procurement exercise is completed it is not possible to state what additional resource would be required for audit fees for 2018/19 and the years beyond, although it is anticipated that any increase will be minimised through using PSAA.

6. **COMMENTS OF THE DIRECTOR OF LEGAL**

6.1 The Local Audit and Accountability Act 2014, section 9 requires each Authority to have an auditor panel to exercise the required functions of an auditor panel under the Act.

6.2 The functions include providing advice to the authority on maintaining an independent relationship with its auditor and on selection and appointment of its auditor taking into account guidance issued by the Secretary of State regarding the exercise of the auditor panel functions.

6.3 The process as set out in this report and the Appendix will ensure compliance with the Local Audit and Accountability Act 2014.

APPENDICES

1 - PSAA Prospectus

BACKGROUND PAPERS

None

Report Author	Michael Honeysett, 0208 356 3332 Michael.honeysett@hackney.gov.uk
Comments of the Group Director of Finance & Corporate Resources	Michael Honeysett, 0208 356 3332 Michael.honeysett@hackney.gov.uk
Comments of the Group Director of Legal	Patricia Narebor, 0208 356 2029 Patricia.narebor@hackney.gov.uk

Developing the option of a national scheme for local auditor appointments

www.psaa.co.uk

Public Sector Audit Appointments

"The LGA has worked hard to secure the option for local government to appoint auditors through a dedicated sector-led national procurement body. I am sure that this will deliver significant financial benefits to those who opt in."

– Lord Porter CBE, Chairman,
Local Government Association

Over the next few months all principal authorities will need to decide how their auditors will be appointed in the future. They may make the appointment themselves, or in conjunction with other bodies. Or they can take advantage of a national collective scheme which is designed to offer them a further choice. Choosing the national scheme should pay dividends in quality, in cost, in responsiveness and in convenience.

Public Sector Audit Appointments Ltd (PSAA) is leading the development of this national option. PSAA is a not-for-profit company which already administers the current audit contracts. It has been designated by the Department for Communities & Local Government (DCLG) to operate a collective scheme for auditor appointments for principal authorities (other than NHS bodies) in England. It is currently designing the scheme to reflect the sector's needs and views.

The Local Government Association (LGA) is strongly supportive of this ambition, and 200+ authorities have already signalled their positive interest. This is an opportunity for local government, fire, police and other bodies to act in their own and their communities' best interests.

We hope you will be interested in the national scheme and its development. We would be happy to engage with you to hear your views – please contact us at **generalenquiries@psaa.co.uk**

You will also find some questions at the end of this booklet which cover areas in which we would particularly welcome your feedback.

Audit does matter

High quality independent audit is one of the cornerstones of public accountability. It gives assurance that taxpayers' money has been well managed and properly expended. It helps to inspire trust and confidence in the organisations and people responsible for managing public money.

Imminent changes to the arrangements for appointing the auditors of local public bodies are therefore very important. Following the abolition of the Audit Commission, local bodies will soon begin to make their own decisions about how and by whom their auditors are appointed. A list of the local government bodies affected can be found at the end of this booklet.

The Local Government Association (LGA) has played a leadership role in anticipating these changes and influencing the range of options available to local bodies. In particular, it has lobbied to ensure that, irrespective of size, scale, responsibilities or location, principal local government bodies can, if they wish, subscribe to a specially authorised national scheme which will take full responsibility for local auditor appointments which offer a high quality professional service and value for money.

The LGA supported PSAA's successful application to the Department for Communities & Local Government (DCLG) to be appointed to deliver and manage this scheme.

PSAA is well placed to award and manage audit contracts, and appoint local auditors under a national scheme

PSAA is an independent, not-for-profit company limited by guarantee and established by the LGA. It already carries out a number of functions in relation to auditor appointments under powers delegated by the Secretary of State for Communities & Local Government. However, those powers are time-limited and will cease when current contracts with audit firms expire with the completion of the 2017/18 audits for local government bodies, and the completion of the 2016/17 audits for NHS bodies and smaller bodies.

The expiry of contracts will also mark the end of the current mandatory regime for auditor appointments. Thereafter, local bodies will exercise choice about whether they opt in to the authorised national scheme, or whether they make other arrangements to appoint their own auditors.

PSAA has been selected to be the trusted operator of the national scheme, formally specified to undertake this important role by the Secretary of State. The company is staffed by a team with significant experience in appointing auditors, managing contracts with audit firms and setting and determining audit fees. We intend to put in place an advisory group, drawn from the sector, to give us ready access to your views on the design and operation of the scheme. We are confident that we can create a scheme which delivers quality-assured audit services to every participating local body at a price which represents outstanding value for money.

Public Sector
Audit Appointments

“Many district councils will be very aware of the resource implications of making their own appointment. Joining a well-designed national scheme has significant attractions.”

– Norma Atlay, President,
Society of District Council Treasurers

“Police bodies have expressed very strong interest in a national scheme led by PSAA. Appointing the same auditor to both the PCC and the Chief Constable in any area must be the best way to maximise efficiency.”

– Sean Nolan, President,
Police and Crime Commissioners
Treasurers’ Society (PACCTS)

The national scheme can work for you

We believe that the national scheme can be an excellent option for all local bodies. Early indications are that many bodies agree - in a recent LGA survey more than 200 have expressed an interest in joining the scheme.

We plan to run the scheme in a way that will save time and resources for local bodies - time and resources which can be deployed to address other pressing priorities. Bodies can avoid the necessity to establish an auditor panel (required by the Local Audit & Accountability Act, 2014) and the need to manage their own auditor procurement. The scheme will take away those headaches and, assuming a high level of participation, be able to attract the best audit suppliers and command highly competitive prices.

The scope of public audit is wider than for private sector organisations. For example, it involves forming a conclusion on the body's arrangements for securing value for money, dealing with electors' enquiries and objections, and in some circumstances issuing public interest reports. PSAA will ensure that the auditors which it appoints are the most competent to carry out these functions.

Auditors must be independent of the bodies they audit, to enable them to them to carry out their work with objectivity and credibility, and in a way that commands public confidence. PSAA plans to take great care to ensure that every auditor appointment passes this test. It will also monitor any significant proposals, above an agreed threshold, for auditors to carry out consultancy or other non-audit work to ensure that these do not undermine independence and public confidence.

The scheme will also endeavour to appoint the same auditors to bodies which are involved in formal collaboration/joint working initiatives or within combined authority areas, if the parties consider that a common auditor will enhance efficiency and value for money.

PSAA will ensure high quality audits

We will only contract with firms which have a proven track record in undertaking public audit work. In accordance with the 2014 Act, firms must be registered with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of their work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC). Current indications are that fewer than ten large firms will register meaning that small local firms will not be eligible to be appointed to local public audit roles.

PSAA will ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any concerns are detected at an early stage and addressed effectively in the new regime. The company will take a close interest in feedback from audited bodies and in the rigour and effectiveness of firms' own quality assurance arrangements, recognising that these represent some of the earliest and most important safety nets for identifying and remedying any problems arising. We will liaise with the National Audit Office (NAO) to help ensure that guidance to auditors is updated when necessary.

We will include obligations in relation to maintaining and continuously improving quality in our contract terms and quality criteria in our tender evaluation method.

PSAA will secure highly competitive prices

A top priority must be to seek to obtain the best possible prices for local audit services. PSAA's objective will be to make independent auditor appointments at the most competitive aggregate rate achievable.

Our current thinking is that the best prices will be obtained by letting three year contracts, with an option to extend to five years, to a relatively small number of appropriately registered firms in two or three large contract areas nationally. The value of each contract will depend on the prices bid, with the firms offering the best prices being awarded larger amounts of work. By having contracts with a number of firms we will be able to ensure independence and avoid dominance of the market by one or two firms.

Correspondingly, at this stage our thinking is to invite bodies to opt into the scheme for an initial term of three to five years.

The procurement strategy will need to prioritise the importance of demonstrably independent appointments, in terms of both the audit firm appointed to each audited body and the procurement and appointment processes used. This will require specific safeguards in the design of the procurement and appointment arrangements.

"Early audit planning is a vital element of a timely audit. We need the auditors to be available and ready to go right away at the critical points in the final accounts process."

– Steven Mair, City Treasurer,
Westminster City Council

"In forming a view on VFM arrangements it is essential that auditors have an awareness of the significant challenges and changes which the service is grappling with."

– Charles Kerr, Chair,
Fire Finance Network

PSAA will establish a fair scale of fees

Audit fees must ultimately be met by individual audited bodies. PSAA will ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising PSAA's own costs. The changes to our role and functions will enable us to run the new scheme with a smaller team of staff. PSAA is a not-for-profit company and any surplus funds will be returned to scheme members.

PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk. Pooling means that everyone within the scheme will benefit from the most competitive prices. Current scale fees are set on this basis. Responses from audited bodies to recent fee consultations have been positive.

PSAA will continue to consult bodies in connection with any proposals to establish or vary the scale of fees. However, we will not be able to consult on our proposed scale of fees until the initial major procurement has been completed and contracts with audit firms have been let. Fees will also reflect the number of scheme participants - the greater the level of participation, the better the value represented by our scale of fees. We will be looking for principal bodies to give firm commitments to join the scheme during Autumn 2016.

Public Sector
Audit Appointments

The scheme offers multiple benefits for participating bodies

We believe that PSAA can deliver a national scheme which offers multiple benefits to the bodies which take up the opportunity to collaborate across the sector by opting into scheme membership.

Benefits include:

- assured appointment of a qualified, registered, independent auditor
- appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives or combined authorities, if the parties believe that it will enhance efficiency and value for money
- on-going management of independence issues
- securing highly competitive prices from audit firms
- minimising scheme overhead costs
- savings from one major procurement as opposed to a multiplicity of small procurements
- distribution of surpluses to participating bodies
- a scale of fees which reflects size, complexity and audit risk
- a strong focus on audit quality to help develop and maintain the market for the sector
- avoiding the necessity for individual bodies to establish an auditor panel and to undertake an auditor procurement
- enabling time and resources to be deployed on other pressing priorities
- setting the benchmark standard for audit arrangements for the whole of the sector

We understand the balance required between ensuring independence and being responsive, and will continually engage with stakeholders to ensure we achieve it.

How can you help?

We are keen to receive feedback from local bodies concerning our plans for the future. Please let us have your views and let us know if a national scheme operated by PSAA would be right for your organisation.

In particular we would welcome your views on the following questions:

1. Is PSAA right to place emphasis on both quality and price as the essential pre-requisites for successful auditor appointments?
2. Is three to five years an appropriate term for initial contracts and for bodies to sign up to scheme membership?
3. Are PSAA's plans for a scale of fees which pools scheme costs and reflects size, complexity and audit risk appropriate? Are there any alternative approaches which would be likely to command the support of the sector?
4. Are the benefits of joining the national scheme, as outlined here, sufficiently attractive? Which specific benefits are most valuable to local bodies? Are there others you would like included?
5. What are the key issues which will influence your decisions about scheme membership?
6. What is the best way of us continuing our engagement with you on these issues?

Please reply to: generalenquiries@psaa.co.uk

Public Sector Audit Appointments

The following bodies will be eligible to join the proposed national scheme for appointment of auditors to local bodies:

- county councils in England
- district councils
- London borough councils
- combined authorities
- passenger transport executives
- police and crime commissioners for a police area in England
- chief constables for an area in England
- national park authorities for a national park in England
- conservation boards
- fire and rescue authorities in England
- waste authorities
- the Greater London Authority and its functional bodies.

BOARD MEMBERS

Steve Freer (Chairman), former Chief Executive CIPFA

Caroline Gardner, Auditor General Scotland

Clive Grace, former Deputy Auditor General Wales

Stephen Sellers, Solicitor, Gowling WLG (UK) LLP

CHIEF OFFICER

Jon Hayes, former Audit Commission Associate Controller

“Maintaining audit quality is critically important. We need experienced audit teams who really understand our issues.”

– Andrew Burns, Director of Finance and Resources, Staffordshire County Council

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Public Sector
Audit Appointments

ADUIT COMMITTEE WORK PROGRAMME 2016/17

	September 2016	Decision	Group Director & Lead Officer
1	**ICT UPDATE BRIEFING REPORT**	For information and comment	Rob Miller
2	**FINANCIAL STATEMENTS AUDIT 2015/16 - ANNUAL GOVERNANCE REPORT (COUNCIL & PENSION FUND)**	For information and comment	Ian Williams (Michael Honeysett)
3	**STATEMENT OF ACCOUNTS 2015/16**	To approve	Ian Williams (Michael Honeysett)
4	**CORPORATE RISK REGISTER REVIEW – SEPTEMBER 2016**	For information and comment	Ian Williams
5	**CORPORATE RISK MANAGEMENT ANNUAL REPORT 2015/16**	For information and comment	Ian Williams (Matthew Powell)
6	**CORPORATE RISK MANAGEMENT POLICY AND STRATEGY REVIEW 2016**	For information and comment	Ian Williams (Matthew Powell)
7	**AUDIT & ANTI FRAUD QUARTERLY PROGRESS REPORT**	For information and comment	Ian Williams (Tracy Barnett/Carole Murray)
8	**TREASURY MANAGEMENT UPDATE**	For information and comment	

	January 2017	Decision	Group Director & Lead Officer
1	**CERTIFICATION OF GRANTS & RETURNS 2015/16**	For information and comment	Ian Williams (Michael Honeysett)
2	**DIRECTORATE RISK REGISTER REVIEW HOUSING AND NEIGHBOURHOODS**	For information and comment	Kim Wright
3	**DIRECTORATE RISK REGISTER REVIEW – CHILDREN'S, ADULT'S & COMMUNITY HEALTH (TBC)**	For information and comment	TBA
4	**DIRECTORATE RISK REGISTER REVIEW – FINANACE & CORPORATE RESOURCES**	For information and comment	Ian Williams
5	**TREASURY MANAGEMENT UPDATE REPORT**	For information and comment	Ian Williams (TBA)
6	**REVIEW OF TREASURY MANAGEMENT STRATEGY 2017/18**	To approve	Ian Williams (TBA)
7	**AUDIT & ANTI FRAUD QUARTERLY PROGRESS REPORT**	For information and comment	Ian Williams (TBA)
8	**WORK PROGRAMME 2017/18**	To approve	TBA

	April 2017	Decision	Group Director and Lead Officer
1	**INTERNAL AUDIT ANNUAL PLAN 2017/18**	To approve	Ian Williams (TBA)
2	**DIRECTORATE RISK REGISTER REVIEW – CHIEF EXECUTIVE'S**	For information and comment	Tim Shields
3	**TREASURY MANAGEMENT UPDATE REPORT**	For information and comment	Ian Williams (TBA)
4	**EXTERNAL AUDIT OPINION PLAN 2016/17**	For information and approval	Ian Williams (Michael Honeysett)