



# Haverling

LONDON BOROUGH

## AUDIT COMMITTEE AGENDA

**7.00 pm**

**Thursday  
28 September 2017**

**Committee Room 3A -  
Town Hall**

Members 6: Quorum 3

**COUNCILLORS:**

**Conservative  
(2)**

Viddy Persaud  
(Chairman)  
Frederick Thompson

**Residents'  
(1)**

Julie Wilkes  
(Vice-Chair)

**East Haverling  
Residents'(1)**

Clarence Barrett

**UKIP  
(1)**

David Johnson

**Independent  
Residents'  
(1)**

Graham Williamson

**For information about the meeting please contact:  
Debra Marlow - 01708 433091  
debra.marlow@OneSource.co.uk**

## **Protocol for members of the public wishing to report on meetings of the London Borough of Havering**

Members of the public are entitled to report on meetings of Council, Committees and Cabinet, except in circumstances where the public have been excluded as permitted by law.

Reporting means:-

- filming, photographing or making an audio recording of the proceedings of the meeting;
- using any other means for enabling persons not present to see or hear proceedings at a meeting as it takes place or later; or
- reporting or providing commentary on proceedings at a meeting, orally or in writing, so that the report or commentary is available as the meeting takes place or later if the person is not present.

Anyone present at a meeting as it takes place is not permitted to carry out an oral commentary or report. This is to prevent the business of the meeting being disrupted.

Anyone attending a meeting is asked to advise Democratic Services staff on 01708 433076 that they wish to report on the meeting and how they wish to do so. This is to enable employees to guide anyone choosing to report on proceedings to an appropriate place from which to be able to report effectively.

Members of the public are asked to remain seated throughout the meeting as standing up and walking around could distract from the business in hand.

## AGENDA ITEMS

### 1 CHAIRMAN'S ANNOUNCEMENTS

The Chairman will announce details of the arrangements in case of fire or other events that might require the meeting room or building's evacuation.

### 2 APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS

(if any) – received.

### 3 DISCLOSURE OF INTERESTS

Members are invited to declare any interest in any of the items on the agenda at this point of the meeting.

*Members may still disclose any interest in any item at any time prior to the consideration of the matter.*

### 4 MINUTES OF THE MEETING (Pages 1 - 4)

To approve as correct the minutes of the meeting held on 21 June 2017 and authorise the Chairman to sign them.

### 5 HEAD OF ASSURANCE - QUARTER ONE PROGRESS REPORT 2017/18 (Pages 5 - 20)

### 6 TREASURY MANAGEMENT UPDATE QUARTER 1 2017/18 (Pages 21 - 38)

### 7 ANNUAL STATEMENT OF ACCOUNTS 2016/17 (Pages 39 - 42)

### 8 REPORT TO THOSE CHARGED WITH GOVERNANCE - INTERNATIONAL STANDARD OF AUDITING (Pages 43 - 48)

### 9 URGENT BUSINESS

To consider any other item in respect of which the Chairman is of the opinion, by reason of special circumstances which shall be specific in the minutes that the item should be considered at the meeting as a matter of urgency.

**Andrew Beesley**  
**Head of Democratic Services**

This page is intentionally left blank

# Public Document Pack Agenda Item 4

**MINUTES OF A MEETING OF THE  
AUDIT COMMITTEE  
Committee Room 3B - Town Hall  
21 June 2017 (7.00 - 7.45 pm)**

**Present:**

**COUNCILLORS:**

|   |   |
|---|---|
| <b>Conservative Group</b>                 | Viddy Persaud (in the Chair) and Frederick Thompson |
| <b>Residents' Group</b>                   | Julie Wilkes (Vice-Chair)                           |
| <b>East Havering<br/>Residents' Group</b> | Clarence Barrett                                    |
| <b>UKIP Group</b>                         | David Johnson                                       |
| <b>Independent Residents<br/>Group</b>    | Graham Williamson                                   |

Through the Chairman, announcements were made regarding emergency evacuation arrangements and the decision making process followed by the Committee.

**1 DISCLOSURE OF INTERESTS**

There were no declarations of interest.

**2 MINUTES OF THE MEETING**

The minutes of the meeting of the Committee held on 9 May 2017 were agreed as a correct record and signed by the Chairman.

**3 TREASURY MANAGEMENT ANNUAL REPORT**

Officers provided details of the final 2016/17 Treasury Position. There had been no new long-term borrowing and external investment income outturn had exceeded the budgeted figure by £0.509m despite the Bank of England cutting the bank rate from 0.5% to 0.25% in August 2016.

Officer advised that they did not believe it would be possible to continue to outperform the budgeted income in the future as inflation was already at 2.9% compared to the Bank of England rate of 2.0%. If the Council are to continue to meet or even exceed the target, there was a need for a change to the Treasury Management Statement to expand the list of instruments the Council could invest in. There would be no investment in these new instruments until a fundamental review had been undertaken of the Authority's capital investment plans in order to develop a 5-year capital programme from 2018/19 to 2023/24.

The Committee noted:

1. The final 2016/17 Treasury Position;

2. The treasury and prudential indicators; and
3. The recommendation to Cabinet and Council to consider the report and approve changes to the 2017/18 Treasury Management Strategy Statement.

#### 4 **ACCOUNTS CLOSURE UPDATE**

The Committee was informed that management were reviewing the preliminary draft statement of accounts, and officers were confident of achieving the statutory timetable for publication and approval.

The significant changes to the code of practice affecting the 2016/17 accounts were the amendment to service lines presented within the Comprehensive Income and Expenditure Statement, and the new Expenditure Funding Analysis. Both of these changes aimed to provide a direct and accessible reconciliation between the way local authorities were funded and prepared their budget to the financial information reported within the Statement of Accounts.

In addition to the change brought by the Code, the 2016/17 accounts would include Group Accounts due to the need to incorporate the Council's interest in Mercury Land Holdings Ltd.

In accordance with the Accounts and Audit (England) Regulations 2011. The Completed accounts would need to be approved and signed by the Chief Financial Officer no later than 30 June 2017.

The draft accounts would then be subject to audit by the Council's external auditors Ernst & Young. Following the conclusion of the audit, the accounts must be approved by the Audit Committee and published no later than 30 September 2017.

The Committee were advised that Nigel Foster who had been involved with the preparation of the Accounts for the best part of 10 years would be leaving the Council by the end of June.

The Committee:

1. Noted the report; and
2. Placed on record their appreciation of the work undertaken by Nigel over the last 10 years.

#### 5 **ANNUAL GOVERNANCE STATEMENT 2016/17**

Officers advised that the 2015/16 Annual Governance Statement had identified two significant governance issues; these were Schem of Delegation (L B Havering) and Commissioning and Contracts (including compliance with procurement rules) these were considered to be ongoing and were included in the 2016/17 statement.

Three other significant issues had been identified for 2016/17. These were:

- Mercury Land Holdings;
- Projects and Programme Management; and
- Information Technology and Information Governance.

The Committee considered the planned action and timetables for addressing these issues and sought assurance that the Scheme of Delegation review would be completed on time.

Officers gave an assurance that the September deadline was achievable.

The Committee **agreed** the Annual Governance Statement.

## 6 **ASSURANCE PROGRESS REPORT QTR 4**

The Committee were provided with details of the work undertaken by the internal audit & counter fraud teams during quarter 4 and the overall outturn for 2016/17. Based upon the work undertaken since the last update no material issues had arisen therefore the Head of Assurance was able to conclude that reasonable assurance could be given that the internal control environment was operating adequately. No limited assurance reports had been issued in quarter four.

The Committee questioned officers with regard those high priority recommendations which had not yet been fully implemented. The Committee were given an assurance that both of these were in hand.

Officers were also asked for clarification with regard to the housing investigations. Officers informed the Committee that initially the Tenancy Fraud Project had targeted council stock, but given its success the scope had been broaden to include PSL stock.

Officers also supplied clarification as to the basis of the figure reached as nominal value for the properties recovered following investigation. A nominal figure had been agreed by the Audit Commission based on the cost of housing a family for a year.

The report was **noted**.

## 7 **INTERNAL AUDIT ANNUAL REPORT 2016/17**

The Head of Assurance had provided his Annual Report which brought together all aspects of audit, assurance and counter fraud work undertaken in the 2016/17 financial year, including actions taken by management in response to audit and counter fraud activity, which supported the governance framework of the authority.

The Head of Assurance drew the Committee's attention to the five London Borough of Havering audits which had been given a Limited Assurance rating.

The Committee had some concern at the Limited Assurance given to the Council Tax Collection OneSource audit. Officers gave an assurance that the high risk recommendations all related only to the LB of Newham processes, and did not impact on LB Havering.

Officers advised that in future OneSource audits would be reported to the Local Joint Committee.

Subject to the above the Committee **noted** the report.

8 **URGENT BUSINESS**

Given the recent events in Manchester, Borough Market and elsewhere the committee asked that an audit of emergency planning be undertaken so that an assurance can be given that the processes are adequate for purpose.

---

**Chairman**



**AUDIT COMMITTEE**  
**28 September 2017**

|   |   |
|---|---|
| <b>Subject Heading:</b>                   | Head of Assurance –<br>Quarter One Progress Report 2017/18  |
| <b>SLT Lead:</b>                          | Jane West<br>Managing Director oneSource  |
| <b>Report Author and contact details:</b> | Jeremy Welburn<br>Head of Assurance.<br>Tel: 01708 432610 / 07976539248<br>E-mail: jeremy.welburn@onesource.co.uk |
| <b>Policy context:</b>                    | To inform the Committee of progress on<br>the assurance work undertaken in quarter<br>one of 2017/18.             |
| <b>Financial summary:</b>                 | N/A   |

**The subject matter of this report deals with the following Council Objectives**

|                               |     |
|-------------------------------|-----|
| Communities making Havering   | [X] |
| Places making Havering        | [X] |
| Opportunities making Havering | [X] |
| Connections making Havering   | [X] |

**SUMMARY**

This report advises the Committee on the work undertaken by the Assurance Service (internal audit & counter fraud) during quarter one of 2017/18.

**RECOMMENDATIONS**

1. To note the contents of the report.
2. To raise any issues of concern and ask specific questions of officers where required.

## REPORT DETAIL

This progress report contains an update to the Committee regarding Internal Audit activity. The report is presented in three sections.

**Section 1** Introduction, Issues and Assurance Opinion

**Section 2** Executive Summary: A summary of the key messages from quarter one.

**Section 3 Appendices:** Provide supporting detail for Members' information

**Appendix A:** Detail of Quarter One Internal Audit work

**Appendix B:** Detail of Quarter One Counter Fraud work

**Appendix C:** Current Status of 2017/18 Audit Plan

## IMPLICATIONS AND RISKS

### **Financial implications and risks:**

There are none arising directly from this report which is for noting and/or providing an opportunity for questions to be raised.

By maintaining an adequate internal audit service, management are supported in the effective identification and efficient management of risks and ultimately good governance. Failure to maximise the performance of the service may lead to losses caused by insufficient or ineffective controls or even failure to achieve objectives where risks are not mitigated. In addition recommendations may arise from any audit work undertaken and managers have the opportunity of commenting on these before they are finalised. In accepting audit recommendations, the managers are obliged to consider financial risks and costs associated with the implications of the recommendations. Managers are also required to identify implementation dates and then put in place appropriate actions to ensure these are achieved. Failure to either implement at all or meet the target date may have control implications, although these would be highlighted by any subsequent audit work. Such failures may result in financial losses for the Council.

### **Legal implications and risks:**

None arising directly from this report.

### **Human Resources implications and risks:**

None arising directly from this report.

### **Equalities implications and risks:**

None arising directly from this report.

**BACKGROUND PAPERS**

N/A

## Section 1: Introduction, Issues and Assurance Opinion

### 1.1 Introduction

1.1.1 The Accounts and Audit Regulations require the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the Public Sector Internal Auditing Standards (PSIAS) and other guidance.

1.1.2 Internal audit is a key component of corporate governance within the Council. The three lines of defence model, as detailed below, provides a framework for understanding the role of internal audit in the overall risk management and internal control processes of an organisation:

- First line – operational management controls
- Second line – monitoring controls, e.g. the policy or system owner / sponsor
- Third line – independent assurance.

The Council's third line of defence includes Internal Audit, who should provide independent assurance to senior management and the Audit Committee on how effectively the first and second lines of defence have been operating.

1.1.3 An independent internal audit function will, through its risk-based approach to work, provide assurance to the Council's Audit Committee and senior management on the higher risk and more complex areas of the Council's business, allowing management to focus on providing coverage of routine operations.

1.1.4 The work of internal audit is critical to the evaluation of the Council's overall assessment of its governance, risk management and internal control systems, and forms the basis of the annual opinion provided by the Head of Assurance which contributes to the Annual Governance Statement. It can also perform a consultancy role to assist in identifying improvements to the organisation's practices.

1.1.5 Officers within the Assurance Service have continued to be involved in work with the Section 151 Officer, Monitoring Officer and Director of Finance for oneSource to refresh the Governance and Assurance Board arrangements and the approach to collating evidence for the Annual Governance Statement. They have also worked with senior management to update risk registers, and to integrate Audit and Counter Fraud Plans with those. Previously, horizon scanning work had taken place with other Heads of Audit and through the Croydon Framework to identify common risk and audit themes. Updated Risk Registers and Audit Plans for 2017/18 were approved by the Audit Committee in May, which reflected this revised approach.

1.1.6 Members will be aware that the full range of Assurance Services; Internal Audit, Counter Fraud, Risk Management & Insurance, are now delivered by a shared service with LB Bexley and LB Newham as part of oneSource. The new structure has started to deliver additional resilience, financial savings and the operational efficiencies required in challenging financial times. This has been achieved by sharing management posts, removing management duplication, and by improving the effectiveness and efficiency of processes.

- 1.1.7 This report brings together all aspects of internal audit and counter fraud work undertaken in quarter one, 2017/18, in support of the Audit Committee's role.
- 1.1.8 The report supports the Head of Assurance's ongoing assurance opinion on the internal control environment and highlights key outcomes from internal audit and counter fraud work and provides information on wider issues of interest to the Council's Audit Committee. The Appendices provide specific detail of outputs for the Committee's information.

## **1.2 Level of Assurance**

- 1.2.1 At the June 2017 Committee meeting, Members received the Head of Assurance opinion based upon the work undertaken in 2016/17, which concluded that reasonable assurance could be given that the internal control environment is operating adequately.
- 1.2.2 Based upon the work undertaken since the last update to Members, no material issues have arisen, which would impact on this opinion. No limited assurance reports were issued in quarter one.

## **Section 2. Executive Summary of work undertaken in quarter one, 2017/18**

### **2.1 Internal Audit**

- 2.1.1 There have been two final reports issued in quarter one; one of these was given an audit opinion of substantial assurance and the other moderate assurance. A number of audits are in progress, with fieldwork underway, but have not reached the final report stage. Appendix C shows the current status of the 2017/18 audit plan.
- 2.1.2 Of the 6 recommendations raised in the reports issued in quarter one; there was one high risk recommendation, four medium and one low. Further detail is provided in Section 3.1.

### **2.2 Pro-Active and Counter Fraud**

- 2.2.1 The Audit Partner (Pro-Active Audit & Counter Fraud) received three new referrals in quarter one.
- 2.2.2 Seven cases have been completed during the quarter resulting in:
- One Disciplinary;
  - One Protected Conversation;
  - One No Case to Answer; and
  - Four Management Action Plans.
- 2.3.1 During the quarter the investigations team:
- Recovered six properties with a notional value of £108,000;
  - Had five Right to Buy applications withdrawn with a notional value of £434,950; and
  - One 'Homelessness Duty Refusal' of £18,000.
- 2.3.2 The total net savings for the Tenancy Fraud Project from October 2015 to June 2017 is £4.53m. The breakdown for each year is detailed below.

April 2017 to June 2017 - £0.52m

April 2016 to March 2017 - £2.54m

October 2015 to March 2016 - £1.47m

## Appendix A

### 3. Quarter One - Internal Audit Work

#### 3.1 Risk Based Systems and School Audits

3.1.1 The table below details the two final reports issued in quarter one. It should be noted that no limited assurance reports were issued in quarter one.

| Report               | Assurance   | Recommendations |          |          |          |
|----------------------|-------------|-----------------|----------|----------|----------|
|                      |             | High            | Med      | Low      | Total    |
| <b>System Audits</b> |             |                 |          |          |          |
| One Oracle           | Moderate    | 1               | 2        | 0        | 3        |
| Fairytes             | Substantial | 0               | 2        | 1        | 3        |
| <b>Total</b>         |             | <b>1</b>        | <b>4</b> | <b>1</b> | <b>6</b> |

The high priority recommendation raised in quarter one is detailed below:

| Audit      | Recommendation   | Management Response   |
|------------|--|---|
| One Oracle | A review of current staff access rights to the system to determine suitability to be undertaken.<br><i>Implementation Date: 30/09/17</i> | Agreed. We are happy to work with the systems team, to ensure the correct levels of access are being applied. |

| Key to Assurance Levels |  |
|-------------------------|--|
| Substantial Assurance   | There is a robust framework of controls and appropriate actions are being taken to manage risks within the areas reviewed. Controls are applied consistently or with minor lapses that do not result in significant risks to the achievement of system objectives. |
| Moderate Assurance      | Whilst there is basically a sound system of control within the areas reviewed, a need was identified to enhance controls and/or their application and to improve the arrangements for managing risks.  |
| Limited Assurance       | There are fundamental weaknesses in the internal control environment within the areas reviewed, and further action is required to manage risks to an acceptable level.   |

3.1.2 During quarter one, there was one school health check completed and a report issued to Parklands Infants.

#### 3.2 Outstanding Audit Recommendations Update

3.2.1 Internal Audit follows up all non-school audit recommendations with management when the deadlines for implementation are due. There is a rolling programme of follow up work, with each auditor taking responsibility for tracking the implementation of recommendations made in their audit reports. The implementation of audit recommendations, in systems where limited assurance was provided, is verified through a follow up audit review. A programme is now in

place to follow up school audit recommendations which will begin with the new academic year in September 2017.

3.2.2 This work is of high importance given that the Council’s risk exposure remains unchanged if management fail to implement the recommendations raised in respect of areas of control weakness. A key element of the Audit Committee’s role is to monitor the extent to which recommendations are implemented as agreed and within a reasonable timescale, with particular focus applied to any high priority recommendations.

3.2.3 Recommendations are classified into three potential categories according to the significance of the risk arising from the control weakness identified. The three categories comprise:

|         |   |
|---------|---|
| High:   | Fundamental control requirement needing implementation as soon as possible. |
| Medium: | Important control that should be implemented                                |
| Low:    | Pertaining to best practice.  |

3.2.4 Two high priority recommendations were due to be implemented by the end of Quarter One. Both these recommendations have been implemented. A total of seven medium priority recommendations that became due during quarter one were followed up and three were confirmed as fully implemented; three partially implemented; and, one was not implemented.

3.2.5 The table below summarises the status of all recommendations made (from finalised reports) up to the end of quarter one and those carried forward from 2016/17. This does not yet include schools since the recommendation follow up process has only recently been introduced.

|   | High     | Medium   | Low      |
|---|----------|----------|----------|
| No. of Recs raised in Q1                          | 1        | 4        | 1        |
| Outstanding 16/17 Recs brought forward            | 3        | 4        | 0        |
| <b>TOTAL</b>                                      | <b>4</b> | <b>8</b> | <b>1</b> |
| Recommendations due to be implemented by 30/06/17 | 2        | 7        | 0        |
| Fully Implemented                                 | 2        | 3        | 0        |
| Partially Implemented                             | 0        | 3        | 0        |
| Not Implemented                                   | 0        | 1        | 0        |

3.2.6 The recommendations that remain outstanding (both partially and not implemented) are provided in the table below:



| Audit Year, Title & Opinion                                      | Recommendation & Priority   | Original management response & quarterly update   | Current implementation status |
|--|---|---|-------------------------------|
| 16/17 Talent Link Application Review<br>Opinion: Substantial     | The password convention should be changed to ensure that only strong passwords are used to access the system..<br><b>Priority: Medium</b>   | <b>Update July 2017</b> - This request has been made to the supplier and will be implemented by the end of October 2017.<br><b>Revised implementation date:</b> 31/10/2017  | Partially implemented         |
|  | It should be investigated whether the system can generate a bespoke report to either monitor user activity or investigate any discrepancies or errors made or possible fraudulent transactions. A programme of monitoring needs to be developed through the user group and in consultation with the Head of People Services to ensure that there is sufficient oversight of user activity and the accountability is defined by clear boundaries.<br><b>Priority: Medium</b> | <b>Update July 2017</b> - This is a bespoke report which will need to be written by Lumesse at an additional charge. This will be investigated and reported back.<br><b>Revised implementation date:</b> 31/10/2017   | Not implemented               |
| 16/17 Direct Payments Financial Assessments<br>Opinion - Limited | Financial Assessments should be carried out within 28 days as specified in the Non-Residential Care Assessments Processes and Procedure Document.<br><b>Priority: Medium</b>  | September 2017 Update - The two vacant Financial Assessment Officer posts have now been filled, with one starting on 11th September and the other scheduled to start on 25th September 2017. Therefore, as previously advised, once the necessary training has been provided we will be meeting the target set out in the recommendation, but it is unlikely we will achieve that before November due to the detailed nature of the training and induction for this post.<br><b>Revised implementation date:</b> 31/12/2017 | Partially implemented         |

|   |  |   |                       |
|---|--|---|-----------------------|
| <b>16/17 Direct Payments Financial Assessments</b><br>Opinion - Limited | The Non-Residential Care Assessments Processes and Procedures should state that a financial re-assessment is to be carried out every three years.<br><b>Priority: Medium</b> | <i>Original implementation date:</i><br>01/03/2017<br><b>July 2017 Update</b> - I can advise that we are now carrying out the work to review people every 3 years. Regarding updating the procedure document, this is on a work plan for the Deputy Team Manager and the date for completion is 31/8/17. It is expected that it will be completed by that date. Due to the 3 vacancies in the team we have accrued a bit of a backlog of work so we are focusing on managing that, therefore if there are delays getting the posts filled this may affect full implementation. We have interviewed and offered posts for all 3 vacancies and this is now in the hands of HR.<br><b>Revised implementation date:</b><br>31/10/2017 | Partially implemented |
|---|--|---|-----------------------|

### 3.3 Audit Progress

3.3.1 The Annual Audit Plan approved by the Audit Committee in May 2017 comprised 48 audit reviews. A further six tasks have been carried forward from 2016/17 and three added at the request of clients; four tasks have been deferred to 2018/19 or cancelled. (See Appendix C). The total number of audit reviews, including 2016/17 audits carried forward, is currently 53.

3.3.2 Current progress toward delivery of the 2017/18 audit plan (including audits carried forward from 2016/17, but excluding School Health Checks) is summarised in the table below, with further detail provided in Appendix C.

|                      | Number of Audits / Tasks |
|----------------------|--------------------------|
| Final reports issued | 2                        |
| Draft reports issued | 8                        |
| In progress          | 13                       |
| To be completed      | 30                       |
| <b>Total</b>         | <b>53</b>                |

3.3.3 The target outturn for completion of the audit plan is 90% at the end of the financial year. As at 23<sup>rd</sup> August 2017, 43% of the tasks have been delivered to draft or final report stage, or are in progress.

## Appendix B

### 4. Quarter One - Counter Fraud Audit Work

#### 4.1 Proactive Counter Fraud Investigations

4.1.1 Proactive work undertaken during quarter one is shown below:

| Description                   | Risks   | Quarter 4 Status |
|-------------------------------|---|------------------|
| Advice to Directorates        | General advice and support to Directors and Heads of Service including short ad-hoc investigations, audits and compliance. Twenty one requests for advice were received during the quarter. | Ongoing          |
| Advice to Local Authorities   | All Data Protection Act requests via Local Authorities, Police etc.   | Ongoing          |
| Fraud Hotline                 | To take all telephone calls and emails relating to the 'Fraud Hotline' and refer appropriately. Five referrals were received during the quarter.  | Ongoing          |
| FOI Requests                  | To undertake all Freedom of Information Requests relating to Internal Audit Investigations.   | Ongoing          |
| Investigation Recommendations | The recording of all investigation recommendations, follow ups and assurance of implementation.   | Ongoing          |
| Whistleblowing                | All whistleblowing referrals.   | Ongoing          |

4.1.2 The proactive audit investigation work comprises two elements:

- A programme of proactive investigations; and
- Following up the implementation of recommendations made in previous corporate fraud investigation and proactive reports (details provided in Section 4.4.1).

#### 4.2 Reactive Investigation Cases

4.2.1 The table below provides the total cases at the start and end of the quarter one period as well as referrals, cases closed and cases completed.

| Caseload Quarter 1 2017/18 |                    |                                 |                |                      |                  |                        |
|----------------------------|--------------------|---------------------------------|----------------|----------------------|------------------|------------------------|
| Cases at start of period   | Referrals received | Referred To Criminal Fraud Team | Referred to HR | Audit Investigations |                  |                        |
|                            |                    |                                 |                | Not Proven Cases     | Successful Cases | Cases at end of period |
| 5                          | 2                  | 0                               | 0              | 1                    | 6                | 0                      |

4.2.2 The table below provides information on the sources of Investigation referrals received.

| <b>Source and Number of Referrals Quarter 1 2017/18</b> |                          |
|---|--------------------------|
| <b>Number of Referrals/ Type</b>                        | <b>IA Reports Qtr. 1</b> |
| Anonymous Whistleblower                                 | 0                        |
| External Organisations / Members of the Public          | 0                        |
| Internal Departments                                    | 2                        |
| <b>Total</b>  | <b>2</b>                 |

4.2.3 The table below shows the number and categories of Investigation cases at the end of the quarter one compared to the quarter four totals.

| <b>Reports by Category</b>          |                             |                                   |
|-------------------------------------|-----------------------------|-----------------------------------|
| <b>Audit Investigation Category</b> | <b>Previous Cases Qtr 4</b> | <b>Current Cases end of Qtr 1</b> |
| Breach of Code of Conduct           | 1                           | 0                                 |
| Breach of Council Procedures        | 0                           | 0                                 |
| Falsification of Records            | 0                           | 1                                 |
| Miscellaneous                       | 1                           | 1                                 |
| Misuse of Council Time              | 0                           | 0                                 |
| Procurement                         | 0                           | 0                                 |
| Theft                               | 1                           | 0                                 |
| <b>Total</b>                        | <b>3</b>                    | <b>2</b>                          |

4.2.4 The table below shows the case outcomes for the Investigations from April to June 2017.

| <b>Case Outcomes</b>   |              |
|------------------------|--------------|
| <b>Outcome</b>         | <b>Qtr 1</b> |
| Management Action Plan | 4            |
| Disciplinary           | 1            |
| Protected Conversation | 1            |
| No case to answer      | 1            |
| <b>Total</b>           | <b>7</b>     |

### 4.3 Savings and Losses

4.3.1 The investigations carried out provide the Council with value for money through:

- The identification of monies lost through fraud and the recovery of all or part of these sums; and
- The identification of potential losses through fraud in cases where the loss was prevented.

4.3.2 There have been no savings or losses identified during quarter one of 2017/18.

#### 4.4 Investigation Recommendations

4.4.1 Any recommendations raised as part of proactive or reactive investigation reports are recorded and their implementation monitored as part of a follow up programme. Three recommendations were brought forward from 2016/2017.

| <b>Total 2017/18 Proactive Investigation Recommendations</b>                                   |   |
|--|---|
| Recommendations made during Quarter 1  | 7 |
| Recommendations Not Yet Due for implementation (including 2 recommendations raised in 2016/17) | 9 |

#### 4.5 Tenancy Fraud Project

4.5.1 During the quarter the majority of resource has been focused on the Tenancy Fraud Project. The tables below show the work undertaken on the project during quarter one.

| <b>Housing Investigations</b> |                      |                                   |                          |                                      |                               |       |
|-------------------------------|----------------------|-----------------------------------|--------------------------|--------------------------------------|-------------------------------|-------|
| Month                         | Tenancy Audit Visits | Tenancy Audits (Checks completed) | PSL Tenancy Audit Visits | PSL Tenancy Audit (Checks completed) | Referrals from Audit to Fraud | NFA'D |
| <b>Apr</b>                    | 393                  | 127                               | 839                      | 120                                  | 2                             | 125   |
| <b>May</b>                    | 627                  | 229                               | 698                      | 91                                   | 1                             | 228   |
| <b>Jun</b>                    | 788                  | 206                               | 263                      | 26                                   | 7                             | 199   |
| <b>YTD</b>                    | 1,808                | 562                               | 1,800                    | 237                                  | 10                            | 552   |

| <b>Internal Audit</b> |  |        |                            |                             |                              |                            |
|-----------------------|--|--------|----------------------------|-----------------------------|------------------------------|----------------------------|
| Month                 | Cases Under Investigation (open cases) | Closed | Total Properties Recovered | Cases referred for HB Fraud | RTB cancelled through audits | Homelessness Duty refusals |
| <b>Apr</b>            | 88                                     | 8      | 2                          | 1                           | 0                            | 0                          |
| <b>May</b>            | 82                                     | 6      | 2                          | 1                           | 3                            | 1                          |
| <b>Jun</b>            | 88                                     | 8      | 2                          | 0                           | 2                            | 0                          |
| <b>YTD</b>            | 258                                    | 22     | 6                          | 2                           | 5                            | 1                          |

4.5.2 Outcomes for the quarter include the following:

- Six properties were recovered with a nominal value of £108,000;
- Five Right to Buy applications were withdrawn with a notional value of £434,950; and
- One Homelessness Duty Refusal of £18,000 (Based on an estimated cost for the Council paying for homelessness subject to secure a homelessness duty).

4.5.3 The total net savings (minus projected costs) for the project from October 2015 to June 2017 is £4.53m. The breakdown for each year is below.

April 2017 to June 2017 - £0.52m

April 2016 to March 2017 - £2.54m

October 2015 to March 2016 - £1.47m

## Appendix C: Current Status of 2017/18 Audit Plan

|                         | AUDIT TITLE  | STATUS  | OPINION     |
|-------------------------|--|---|-------------|
| YEAR<br>PRIOR<br>AUDITS | One Oracle 16/17   | COMPLETE  | MODERATE    |
|                         | Contract Monitoring – Environment 16/17                  | DRAFT REPORT  |             |
|                         | Declarations of Interest 16/17                           | DRAFT REPORT  |             |
|                         | Disaster Recovery Follow Up (1617)                       | DRAFT REPORT  |             |
|                         | Grants to Voluntary Organisations                        | DRAFT REPORT  |             |
|                         | Children’s Commissioning                                 | UNDERWAY  |             |
| LBH SYSTEM AUDITS       | Fairytes   | COMPLETE  | SUBSTANTIAL |
|                         | Troubled Families Programme                              | SCOPING –<br>fieldwork<br>scheduled Sept'             |             |
|                         | No Recourse to Public Funds (NRPF)                       | SCOPING –<br>fieldwork TBC                            |             |
|                         | Client Finance deputyship and appointeeship              | SCOPING –<br>fieldwork<br>scheduled Sept'             |             |
|                         | Accounts payable service payments teams in directorates  | SCOPING –<br>fieldwork<br>scheduled Sept'             |             |
|                         | Private Sector Leasing scheme - Liberty Housing          | SCOPING –<br>fieldwork<br>scheduled Oct'              |             |
|                         | Housing and Planning Act 2016                            | SCOPING –<br>fieldwork TBC                            |             |
|                         | Homelessness - Housing Tenancy Arrangements              | SCOPING –<br>fieldwork<br>scheduled Sept'             |             |
|                         | Reablement Services                                      | MOVE TO 18/19<br>– service request<br>due to retender |             |
|                         | Care Packages  | MOVE TO 18/19<br>– service request                    |             |
|                         | Contract Management: Client checking of contractor works | SCOPING –<br>fieldwork<br>scheduled Sept'             |             |
|                         | Health and Social Care Integration - Hospital Discharges | Q4  |             |
|                         | Adoption (Additional Task)                               | Q3  |             |
|                         | Information Governance/ Data Protection                  | TBC (External)  |             |
|                         | Corporate Culture  | Q3  |             |
|                         | Compliance with new Report Approval Processes            | Q3  |             |
|                         | Alternative delivery models                              | Q3/4  |             |
|                         | Children's disability service                            | Q3  |             |
|                         | Care Act 2014 - Safeguarding                             | Q3/4  |             |
|                         | Date warehouse security                                  | TBC (External)  |             |
| SCHOO<br>LS             | St Alban's RC Primary                                    | DRAFT REPORT  |             |
|                         | St Mary's RC Primary                                     | DRAFT REPORT  |             |
|                         | Crownfield Infants                                       | DRAFT REPORT  |             |

|                             |  |  |  |
|-----------------------------|--|--|--|
|                             | Squirrels Heath Infants  | DRAFT REPORT                             |  |
|                             | Branfil Primary  | Q3                                       |  |
|                             | Crownfield Juniors   | Q3                                       |  |
|                             | Elm Park Primary (Additional Task)                                       | Q3                                       |  |
|                             | Engayne Primary  | Q4                                       |  |
|                             | Gidea Park Primary   | Q4                                       |  |
|                             | Harold Court Primary   | Q4                                       |  |
|                             | Squirrels Heath Junior   | Q4                                       |  |
|                             | Towers Junior  | Q4                                       |  |
|                             | Scargill Infant  | CANCELLED – applied to become an Academy |  |
|                             | Whybridge Junior   | CANCELLED – applied to become an Academy |  |
|                             | Health Checks (24)   | X2 DRAFT REPORTS                         |  |
| ONESOURCE                   | Offsite Storage Follow Up (Additional Task)                              | UNDERWAY                                 |  |
|                             | Pension fund governance  | SCOPING – fieldwork TBC                  |  |
|                             | Procurement - including compliance with Public Contract Regulations 2015 | SCOPING – fieldwork scheduled Oct'       |  |
|                             | NNDR - debt recovery and write offs                                      | Q3                                       |  |
|                             | Establishment controls   | Q4                                       |  |
|                             | Housing Benefit - new claims or change in circumstances                  | Q4                                       |  |
|                             | Staff vetting  | Q3                                       |  |
|                             | Debt recovery  | Q4                                       |  |
|                             | Northgate (Revs and Bens) application review                             | Q4                                       |  |
|                             | Enforcement Agents   | Q3                                       |  |
|                             | Budget Monitoring/ Savings Programme                                     | TBC                                      |  |
|                             | Treasury Management  | Q3                                       |  |
|                             | 1Oracle follow up  | Q4                                       |  |
|                             | off payroll engagement/ IR35   | Q4                                       |  |
|                             | Cyber security   | TBC (External)                           |  |
| Serious and Organised Crime | Q4   |  |  |



**AUDIT COMMITTEE**

**28 SEPTEMBER 2017**

**Subject Heading:**

**TREASURY MANAGEMENT UPDATE  
QUARTER 1 2017/18**

**SLT Lead:**

**Debbie Middleton  
Interim Chief Financial Officer**

**Report Author and contact details:**

**Reena Patel / Stephen Wild  
Treasury Manager / Head of Pensions and  
Treasury  
01708432485  
[Reena.Patel@onesource.co.uk](mailto:Reena.Patel@onesource.co.uk)**

**Policy context:**

**The Code of Practice on Treasury  
Management 2009 recommends  
treasury activities to be reported on a  
scrutiny committee on a quarterly  
basis.**

**Financial summary:**

**There are no direct financial  
implications from the report.**

**The subject matter of this report deals with the following Council  
Objectives**

|                             |     |
|-----------------------------|-----|
| Communities making Havering | [x] |
| Places making Havering      | [x] |
| Places making Havering      | [x] |
| Connections making Havering | [x] |

**SUMMARY**

The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of the treasury management function to Full Council at least twice per year (mid-year and at year end). This report provides an additional quarterly update to be reviewed by the Audit Committee.

The authority has borrowed and 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 activity on treasury managed investments and borrowings and the associated monitoring and control of risk.

The key highlights of the Q1 report are as follows:

- Investment portfolio return was 0.68% outperforming its Benchmark by 0.37%, the Budgeted rate of return by 0.08% despite 3 month LIBOR falling steadily over the quarter.
- The Arlingclose 13 London Borough average was 0.67% in Q1 but with a portfolio that had intrinsically more risk than the authority's own investment portfolio.
- No breach of the authority's prudential indicators and treasury indicators.

## RECOMMENDATIONS

- To note the treasury management activities for the quarter detailed in the report
- To note the regulatory update on "Ring Fencing" set out in appendix C of this report.
- To note the updates on published FCA rules in relation to the second Markets in Financial Instrument Directive (MIFID II) included in appendix C of this report. Further details on the 'Opting-Up' process are also included in the appendix.

## REPORT DETAIL

### 1. Economic Update and Outlook for 2017/18

- 1.1 UK Consumer Price Inflation (CPI) index was 2.6% in June (and remained unchanged in July) while Q1 GDP slowed to 0.2% although Q2 GDP could rebound.
- 1.2 The Bank of England made no change to Bank Rate at its June 2017 meeting. The central case is for Bank Rate to remain flat at 0.25% over the next three years. However, there is a downside risk for rates to be cut to

0.00% in the short and medium term and scope for rates to be increased from 2019 onwards, albeit modestly to 0.50%.

- 1.3 Gilt yields displayed some volatility with a marked uptick in late June. This was largely due to the expectation of tapering of Quantitative Easing (QE) in the US and Europe, which also had an impact on gilts. Since then however, gilt yields have eased and 50 year PWLB debt was priced at 2.26% at 11 September 2017.

Table 1: Bank rate forecast for the next three years.

|                            | Sep-17 | Dec-17 | Mar-18 | Jun-18 | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Mar-20 | Jun-20 | Sep-20 |
|----------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Official Bank Rate         |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Upside risk %              | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   | 0.25   | 0.25   | 0.25   | 0.25   | 0.25   | 0.25   | 0.25   | 0.25   |
| 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   |
| Downside risk %            | 0.00   | 0.25   | 0.25   | 0.25   | 0.25   | 0.25   | 0.25   | 0.25   | 0.25   | 0.25   | 0.25   | 0.25   | 0.25   |

## 2. Treasury Management Summary

Treasury management activity as at 30<sup>th</sup> June 2017 is shown in table 2 below.

Table 2: Treasury Management Summary in Quarter 1\*

|                          | Balance at<br>01/04/17<br>£m | Raised<br>£m   | Repaid<br>£m   | Balance at<br>30/06/17<br>£m | Weighted<br>Average<br>Rate<br>% |
|--------------------------|------------------------------|----------------|----------------|------------------------------|----------------------------------|
| <b>Loans</b>             |                              |                |                |                              |                                  |
| PWLB                     | 203.234                      | -              | -              | 203.234                      | 3.60                             |
| Money Market (LOBO)      | 7.000                        | -              | -              | 7.000                        | 3.60                             |
| Temporary Borrowing      | 2.512                        | 10.000         | 2.362          | 10.150                       | 0.20                             |
| <b>Total Loans</b>       | <b>212.746</b>               | <b>10.000</b>  | <b>2.362</b>   | <b>220.384</b>               | <b>3.44</b>                      |
| <b>Investments</b>       |                              |                |                |                              |                                  |
| Fixed Deposits           | 162.000                      | 73.500         | 66.000         | 169.500                      | 0.74                             |
| Money Market Funds       | 6.920                        | 117.680        | 111.870        | 12.730                       | 0.25                             |
| Call Accounts            | 23.176                       | 12.166         | 0.950          | 34.392                       | 0.45                             |
| Covered Bonds            | 8.808                        | -              | -              | 8.808                        | 0.59                             |
| <b>Total investments</b> | <b>200.904</b>               | <b>203.346</b> | <b>178.820</b> | <b>225.435</b>               | <b>0.68</b>                      |

\* Excludes energy renewable loan

### 3. Investments

- 3.1 The authority had outstanding deposits and related investments at 30 June 2017 of £225m. The Arlingclose universe of 13 London Boroughs had an average cash balance of £93.2m. The average days to maturity of the authority's investments was 294 days compared to the 154 days of the 13 London Borough's.
- 3.2 At 30 June 2017, investments were spread amongst 26 counterparties in comparison with an average of 16 counterparties in the Arlingclose universe of 13 London Boroughs. **Appendix A** shows the breakdown of counterparties and investments for the authority. Diversification of the investment portfolio meant that the exposure to banks with a potential of being affected by Bail-in was 44% in comparison with 65% in the universe.
- 3.3 Table 3 below shows treasury investment performance for quarter ending 30 June 2017 while Table 4 show the average monthly balances in the quarter.

**Table 3: Treasury Investment Performance for Quarter 1 2017/18**

| Period    | Benchmark Return<br>3 month LIBOR<br>% (Average<br>Quarterly Rate) | Budgeted<br>Rate of<br>Return<br>% | Actual Rate<br>of<br>Return<br>% | Investment Interest<br>Earned to<br>Period End<br>£m |
|-----------|--|------------------------------------|----------------------------------|--|
| Quarter 1 | 0.31   | 0.60                               | 0.68                             | 0.372  |

- 3.4 3M LIBOR started the financial year at 0.337% and ended Q1 at 0.307% (It was 0.285% at 11 September) and as a result return on cash investments have continued to reduce.
- 3.5 As shown in table 3, the authority outperformed its benchmark this quarter by 37bps. This was achieved by locking into longer term deposits to mitigate the impact of falling 3 month LIBOR. However once these investments mature the cash becomes subject to current market rates.
- 3.6 The authority's 2017/18 budgeted rate of return was set at 0.60% taking into account predicted fall in Bank Rate and economic conditions. At the end of quarter 1, the authority outperformed its budgeted rate of return by 8bps. This compares with the Arlingclose London universe figure of 0.67% but the risk adjusted return for the authority was significantly higher generating 0.21% return per unit of risk on a time weighted basis compared with 0.16% for the universe
- 3.7 It is expected that the average 3 month LIBOR will drop further in Quarter 2 and as maturing deposits are replaced with new investments at lower rates

any excess interest in Quarter 1 may be eroded before the end of the financial year. Officers and their adviser will consider reinvesting in longer duration investments (exceeding 364 days) to obtain higher yield (within existing risk parameters) once the capital review is completed.

Table 4 shows the average monthly balances in Quarter 1 2017/18

| Year      | Quarter | Month | Date                        | Days | Average Balance (£m) | Weighted Average Rate (%) |
|-----------|---------|-------|-----------------------------|------|----------------------|---------------------------|
| 2017/2018 | 1       | April | April average               | 30   | 212.6                | 0.69                      |
|           |         | May   | May average                 | 31   | 220.6                | 0.67                      |
|           |         | June  | June average                | 30   | 223.6                | 0.68                      |
|           |         |       | <b>2017/2018 Q1 average</b> | 91   | 219.0                | 0.68                      |
|           |         |       | <b>2017/2018 average</b>    | 91   | <b>219.0</b>         | <b>0.68</b>               |

#### 4. Current Investment Opportunities

- 4.1 The Authority is occasionally made aware of long term investment opportunities by other oneSource Authorities, brokers or investment advisers.
- 4.2 Council on the 13<sup>th</sup> September approved changes to the Treasury Management Strategy Statement (TMSS) which will now facilitate investment in a wider range of products.
- 4.3 In 2016/17, oneSource authorities (Newham and Bexley) and Warrington Council have invested in 5 year solar bonds. Subsequent to Cabinet's approval of the recommended changes to the TMSS, this authority now has the option of investing £3m in Solar bonds and the S151 Officer in consultation with the lead member for financial management will decide whether to take up this option.

#### 5. New borrowing

- 5.1 Affordability and the "cost of carry" remained important influences on the authority's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing.
- 5.2 As short-term interest rates have remained, and are likely to remain at least over the forthcoming two years, lower than long-term rates, the authority determined it was more cost effective in the short-term to use internal resources instead, referred to as internal borrowing.

5.3 As a result no long term borrowing was undertaken during the quarter but this will be kept under continuous review as capital investment plans are developed and spending is monitored.

5.5 Market opportunities that may provide borrowing rates at less than equivalent PWLB will be considered, where such borrowing opportunities become available. The S151 Officer will consider the cost of carry before making a decision to borrow in advance of need or forward fixing borrowing rates. Such opportunities could be used by the authority after careful consideration to potentially pay for the authority's prefunding of the LGPS past service cost and deliver General Fund savings. However the S151 Officer will ensure that full cost of the capital programme over the same period and its affordability is costed before making a decision whether to use cash balances to prefund pension fund annual past service cost pension contributions for the next 3 years.

## **6. Debt Rescheduling**

6.1 The possibility of debt rescheduling is regularly discussed with our treasury adviser and is a regular agenda item at the quarterly treasury meeting held between the treasury officers, Arlingclose, the S151 officer and the lead Member for Financial Management. However opportunities have been almost non-existent in the current economic climate.

6.2 The premium charge for early repayment of PWLB debt remains relatively expensive for the loans in the authority's portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.

## **7. Compliance with Treasury and Prudential Limits**

7.1 It is a statutory duty for the authority to determine and keep under review the affordable borrowing limits. The authority's approved 2017/18 Treasury and Prudential Indicators (affordability limits) were included and approved by Full Council as part of the Treasury Management Strategy Statement (TMSS) in February 2017. The changes to the 2017/18 TMSS presented to this Committee in June 2017 were approved by Full Council on the 13<sup>th</sup> September 2017 meeting. These changes as reported will enable the authority to invest in secured bonds in unrated companies.

7.2 During the quarter, the authority has operated within the treasury limits and Prudential Indicators set out in the authority Treasury Management Strategy Statement and in compliance with the authority's Treasury Management Practices. An update on indicators and limits are reported in appendix 2 of this report.

7.3 There were a number of credit rating changes during the quarter. Moody's Credit Rating Agency affirmed Royal Bank of Scotland's and NatWest's long-term ratings at Baa1. The agency did downgraded the major Canadian banks' long-term ratings on the anticipation that they will face a more

challenging operating environment going forward but are expected to remain above the authority's approved ratings for highly rated counterparties.

- 7.4 Moody's also down-graded the large Australian banks to Aa3 from Aa2 reflecting the agency's view of the rising risks from the banks exposure to the Australian housing market and the elevated proportion of lending to residential property investors. However the ratings of these banks are still expected to remain within criteria of the authority's highly rated counterparties. The authority had £8m exposure with an Australian bank (Australia and New Zealand Banking Group) at the end of Q1, with a rating of AA-.
- 7.5 Standards and Poor's Credit Rating Agency (S&P) also revised Nordea banks outlook from negative to stable, whilst affirming their long-term rating at AA-.
- 7.6 The authority's treasury adviser sends out email communications, notifying changes to counterparty ratings when they take place. These are monitored by the Treasury Manager and appropriate action taken after seeking advice from the Head of Pensions and Treasury.

## IMPLICATIONS AND RISKS

### **Financial implications and risks:**

There are no direct financial implications from this report.

### **Legal implications and risks:**

There are no apparent legal implications or risks from noting this report.

### **Human Resources implications and risks:**

There are no HR implications from this report

### **Equalities implications and risks:**

There are no Equalities implications arising from this report

## **BACKGROUND PAPERS**

1. 2017/18 Treasury Management Strategy
2. 2016/17 Treasury Management Annual report and Proposed Changes to 2017/18 Treasury Management Strategy
3. Arlingclose Investment Benchmarking Q2 2017



## Appendix A

**Table 1 breakdown of Deposits at 30<sup>th</sup> June 2017**

| Institution Type                                   | 30th June 2017<br>Actual<br>£'m | 31 March 2017<br>Actual<br>£'m |
|--|---------------------------------|--------------------------------|
| <b>UK Banks</b>                                    |                                 |                                |
| Goldman Sachs INT"L Bank                           | 17.600                          | 18.000                         |
| Lloyds Bank PLC                                    | 24.000                          | 24.000                         |
| Royal Bank of Scotland                             | 0.100                           | -                              |
| Santander UK PLC                                   | 24.005                          | 23.984                         |
| <b>UK Building Societies</b>                       |                                 |                                |
| Coventry Building Society                          | -                               | 5.000                          |
| Nationwide Building Society                        | 10.000                          | 13.000                         |
| Yorkshire Building Society                         | 5.000                           | 5.000                          |
| <b>Local Authorities &amp; Other Public Sector</b> |                                 |                                |
| Birmingham City Council                            | 15.000                          | -                              |
| BlackBurn with Darwen Borough Council              | 5.000                           | -                              |
| Cheshire East Council                              | 5.000                           | -                              |
| Eastleigh Borough Council                          | 5.000                           | 5.000                          |
| Falkirk Council                                    | 5.000                           |                                |
| Highland Council Inverness                         | 7.000                           | 12.000                         |
| Lancashire County Council                          | 15.000                          | 15.000                         |
| London Borough of Islington                        | 5.000                           | 5.000                          |
| Mid Suffolk District Council                       | 5.000                           |                                |
| Newcastle Upon Tyne City Council                   | 10.000                          | 5.000                          |
| North Lanarkshire Council                          | 5.000                           | 5.000                          |
| Northumberland County Council                      | 15.000                          | 15.000                         |
| Stockport Borough Council                          | 5.000                           | -                              |
| <b>Non UK Banks</b>                                |                                 |                                |
| <b>Australia</b>                                   |                                 |                                |
| Australia & New Zealand Banking Group              | 8.000                           | 3.000                          |
| Commonwealth Bank of Australia                     | -                               | 10.000                         |
| <b>Canada</b>                                      |                                 |                                |
| Bank of Montreal                                   | -                               | 4.000                          |
| <b>Netherlands</b>                                 |                                 |                                |
| Cooperative Rabobank                               | 10.000                          | 15.000                         |
| <b>Singapore</b>                                   |                                 |                                |
| Development Bank Singapore                         | 7.000                           | 2.000                          |
| Overseas-Chinese Banking Corporation               | 5.000                           | 9.000                          |
| <b>Money Market Funds</b>                          |                                 |                                |
| HSBC Global Liquidity Fund Class G MMF             | -                               | 6.920                          |
| BNP Paribas Insticash Sterling MMF                 | 9.040                           | -                              |
| Insight Investments Liquidity MMF                  | 3.690                           | -                              |
| <b>TOTAL INVESTMENTS</b>                           | <b>225.435</b>                  | <b>200.904</b>                 |

**Table 2****Investment Benchmarking**

| <b>30 June 2017</b>      | <b>Havering</b> | <b>13 London &amp; Met Boroughs Average</b> | <b>133 LAs Average</b> |
|--------------------------|-----------------|---|------------------------|
| Internal Investments     | £225.4m         | £87.8m                                      | £63.0m                 |
| External Funds           | £0.0m           | £3.9m                                       | £9.2m                  |
| <b>TOTAL INVESTMENTS</b> | <b>£225.4m</b>  | <b>£93.2m</b>                               | <b>£72.2m</b>          |

| <b>Security</b>                       |      |      |      |
|---------------------------------------|------|------|------|
| Average Credit Score                  | 3.97 | 4.32 | 4.32 |
| Average Credit Rating                 | AA-  | AA-  | AA-  |
| Average Credit Score (time-weighted)  | 3.26 | 4.22 | 3.99 |
| Average Credit Rating (time-weighted) | AA   | AA-  | AA-  |
| Number of Counterparties / Funds      | 26   | 16   | 16   |
| Proportion Exposed to Bail-in         | 44%  | 65%  | 65%  |

| <b>Liquidity</b>                     |     |     |     |
|--------------------------------------|-----|-----|-----|
| Proportion Available within 7 days   | 6%  | 52% | 46% |
| Proportion Available within 100 days | 32% | 70% | 66% |
| Average Days to Maturity             | 294 | 154 | 45  |

| <b>Market Risks</b>             |      |      |      |
|---------------------------------|------|------|------|
| Average Days to Next Rate Reset | 290  | 174  | 71   |
| External Fund Volatility        | 0.0% | 0.4% | 1.9% |

| <b>Yield</b>                            |              |              |              |
|---|--------------|--------------|--------------|
| Internal Investment Return              | 0.68%        | 0.51%        | 0.52%        |
| External Funds - Income Return          |              | 1.34%        | 3.48%        |
| External Funds - Capital Gains/Losses   |              | 1.20%        | 1.37%        |
| External Funds - Total Return           |              | 2.54%        | 4.85%        |
| Total Investments - Income Return       | 0.68%        | 0.58%        | 0.89%        |
| <b>Total Investments - Total Return</b> | <b>0.68%</b> | <b>0.67%</b> | <b>1.19%</b> |

**Notes to the table above**

- Unless otherwise stated, all measures relate to internally managed investments only, i.e. excluding external pooled funds.
- Averages within a portfolio are weighted by size of investment, but averages across authorities are not weighted.
- Credit scores are calculated as AAA = 1, AA+ = 2, etc.
- Volatility is the standard deviation of weekly total returns, annualised.

SOURCE: Arlingclose Quarterly benchmarking

All treasury management activities undertaken during quarter 1 complied fully with the CIPFA Code of Practice and the authority’s approved Treasury Management Strategy. Compliance with specific treasury limits is demonstrated in tables below.

**1.1 Interest Rate Exposures**

1.1.1 This indicator is set to control the authority’s exposure to interest rate risk on its debt portfolio. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of gross principal borrowed will be:

Table1: Interest rate exposure activity

|  | 2017/18<br>Limit<br>% | 2017/18<br>Q1 Actual<br>% | 2018/19<br>Limit<br>% | 2019/20<br>Limit<br>% |
|--|-----------------------|---------------------------|-----------------------|-----------------------|
| Upper limit on fixed interest rate exposure    | 100                   | 92.22                     | 100                   | 100                   |
| Upper limit on variable interest rate exposure | 25                    | 7.78                      | 30                    | 35                    |

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

1.1.2 Having larger amounts of fixed interest rate borrowing gives the authority greater stability with regards to its interest payments and reduces the risk of higher interest costs should interest rates rise. Traditionally local authorities have taken advantage of fixing interest rates long term to reduce interest rate exposure. The table excludes Salix Finance loans as these are held at zero interest hence no interest rate exposure.

**1.2 Maturity Structure of Borrowing**

1.2.1 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:

Table 2: Loan maturity structure

|                                | Upper<br>% | Lower<br>% | Actual<br>% |
|--------------------------------|------------|------------|-------------|
| Under 12 months                | 40         | 0          | 7.78        |
| 12 months and within 24 months | 40         | 0          | 0.00        |
| 24 months and within 5 years   | 60         | 0          | 0.50        |
| 5 years and within 10 years    | 75         | 0          | 9.77        |
| 10 years and above             | 100        | 25         | 81.94       |

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.

### 1.3 Principal Sums Invested for Periods Longer than 364 days

- 1.3.1 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.
- 1.3.2 The limits set in the 2017/18 treasury management strategy in comparison to the quarter one is set below. It is the authority's policy to classify available for sale investments with maturities exceeding one year as short term investments.

Table 3: Investments for periods longer than 364 days

|   | 2017/18<br>Limit<br>£m | 2017/18<br>Actual<br>£m | 2018/19<br>Limit<br>£m |
|---|------------------------|-------------------------|------------------------|
| Limit on principal invested beyond year end | 75                     | 40                      | 75                     |

### 1.4 Liquidity Treasury Indicator

- 1.4.1 The authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments overnight and within a rolling three month period without additional borrowing. £12.830m amounts to 5.64% of total investments while £24.5m amounts to 10.87%.

Table 4: Liquidity activity as 30/06/2017

|  | Target<br>£m | Actual<br>£m |
|--|--------------|--------------|
| Total cash available by the next working day | 5.000        | 12.830       |
| Total cash available within 3 months         | 30.000       | 24.500       |

### 1.5 Gross Debt and the Capital Financing Requirement (CFR)

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

Table 5: Gross debt and the CFR

|                         | 31.03.17<br>Actual<br>£m | 31.03.18<br>Estimate<br>£m | 31.03.19<br>Estimate<br>£m | 31.03.20<br>Estimate<br>£m |
|-------------------------|--------------------------|----------------------------|----------------------------|----------------------------|
| Long Term External Debt | 210.234                  | 210.234                    | 210.234                    | 256.234                    |
| CFR                     | 250.578                  | 280.794                    | 325.527                    | 371.890                    |
| Internal Borrowing      | 40.344                   | 70.56                      | 115.293                    | 115.656                    |

1.5.2 Total debt is expected to remain below the CFR during the year. The actual debt levels are monitored against the Operational Boundary and authorised Limit for External Debt, below.

## 1.6 Operational Boundary for External Debt

1.6.1 The operational boundary is based on the authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt.

Table 6: Operational Boundary

| Operational Boundary        | 2017/18<br>£m  | 2018/19<br>£m  | 2019/20<br>£m  |
|-----------------------------|----------------|----------------|----------------|
| Borrowing                   | 276.300        | 310.600        | 341.400        |
| Other long-term liabilities | 2.000          | 2.000          | 2.000          |
| <b>Total</b>                | <b>278.300</b> | <b>312.600</b> | <b>343.400</b> |

## 1.7 Authorised Limit for External Debt

1.7.1 The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Table 7: Authorised limit for external debt

| Authorised Limit            | 2017/18<br>£m  | 2018/19<br>£m  | 2019/20<br>£m  |
|-----------------------------|----------------|----------------|----------------|
| Borrowing                   | 303.900        | 341.700        | 375.500        |
| Other long-term liabilities | 2.000          | 2.000          | 2.000          |
| <b>Total Debt</b>           | <b>305.900</b> | <b>343.700</b> | <b>377.500</b> |
| Long Term Debt              | 210.200        | 210.200        | 210.200        |
| <b>Headroom</b>             | <b>95.700</b>  | <b>133.500</b> | <b>133.500</b> |



## Regulatory Update

## Appendix C

### 1.0 Ring-fencing

- 1.1 Ring-fencing which requires the larger UK banks to separate their core retail banking activity from the rest of their business, is expected to be implemented within the next year.
- 1.2 In May, Arlingclose advice has been for clients to reduce the maximum duration of its deposits at RBS, HSBC and Lloyds bank from 13 months to 6 months as there is some uncertainty surrounding which banking entities the authority will be dealing with once ring-fencing is implemented. The Committee was provided with an update on ring-fencing in the Q4 report, further updates will be provided once the final balance sheet structures of those banks are known.
- 1.3 There is a potential risk that arises from the ring fencing of larger UK banks. The authority would not be able to lock into the favourable rates that are offered for longer term investments with these banks and therefore the prospects of meeting the investment income target for the current year is at an additional risk.
- 1.4 Although bail-in legislation has been enacted and is due to be implemented shortly in Canada in the absence of credit default swaps, Arlingclose is of the belief that these bank's balance sheets no longer support their existing credit stance they have therefore advised clients to reduce the duration of new investments in Bank of Montreal, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Royal Bank of Canada and Toronto Dominion Bank from 12 months to 6 months although investments in these banks collateralised against secured securities within the authority's Treasury Management Strategy can be for longer in so far as they remain with the approved limits.

### 2.0 MIFID II Client Categorisation of Local Authorities

- 2.1 The FCA's final rules were published in a policy statement on 3<sup>rd</sup> July 2017. There were some differences and some clarification compared to the original proposals. The Committee were provided with an update in the Q4 2016/17 report.
- 2.2 Although the UK has voted to leave the EU, MIFID II will be implemented in the UK because the UK is still subject to EU laws until we leave, secondly the UK government is in favour of strengthening investor protection and UK firms will wish to continue to provide financial services across the EU after we leave therefore need to comply with equivalent regulations.

2.3 With the changes to Client Categorisation rules, all Local Authorities will be reclassified as 'retail' clients by default, with the option of being treated as 'elective professional', provided they can meet a set of qualitative and quantitative criteria (detailed in points 2.5 & 2.6)

2.4 A decision to maintain "Retail" status is expected to limit the investment options available, compared to "Professional" status. It also is important to note that the option to opt-up is not a one off exercise. It will need to be undertaken with each and every counterparty / fund manager that a client may wish to transact. Without "Professional" status the authority will be unable to deliver its Treasury Management Strategy and the investment income assumed in the budget strategy.

## 2.5 Qualitative Test Criteria

- (a) This test is based around the financial firm being confident that their client can demonstrate their experience and knowledge, to a level at which they have sufficient assurance that the client is capable of making investment decisions and has an understanding of the risks involved.
- (b) The qualitative test criteria are provided as guidance and each investment counter-party would then set its particular criteria. Rather than a simple pro-forma that could be used to meet each individual request, there are likely to be differences in each approach from each individual financial institution and fund manager. The differences could simply depend on the nature of the potential investment a client may make with the entity, or there could be other factors that also play a role.
- (c) The onus will be on each financial services firm to document and evidence that each client satisfies the above criteria, if they wish to allow an authority to re-categorise as professional. The information that will be needed as part of this process will have to be supplied by the local authority.

## 2.6 Quantitative Test Criteria

The quantitative test criteria that must be satisfied are detailed below.

- (a) the size of the client's financial instrument portfolio, defined as including cash deposits and financial instruments, exceeds £10,000,000
- (b) the client has carried out transactions, in significant size, on the relevant market at an average frequency of 10 per quarter over the previous four quarters
- (c) the client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the transactions or services envisaged

- 2.7 In the July briefing from the authority's treasury adviser, it was noted that none of the main broker and adviser firms serving Local Authorities are currently authorised to serve retail clients, including Arlingclose.
- 2.8 There is a portal that has been provided by CIPFA, the CIPFA/PS Link MiFID II portal, to manage the opting up process. The authority has been registered on this portal and intends to complete the necessary stages towards the opting up process through this portal.





## Glossary of Terms

## Appendix D

**A bond** is a debt instrument in which an investor lends money for a specified period of time at a fixed rate of interest. The issuing entity could be corporate, financial or government.

**A floating rate note (FRN)** is a money market instrument with a Floating/variable rate of interest, which re-fixes over a reference rate, for example 3 month LIBOR.

**Bail in** is rescuing a financial institution on the brink of failure by making its creditors and depositors take a loss on their holdings. A **bail-in** is the opposite of a **bail-out**, which involves the rescue of a financial institution by external parties, typically governments using taxpayer's money.

**Basis point (bp)** One hundredth of 1% e.g. 0.01%

**Certificates of deposit (CDs)** are a negotiable form of fixed deposit, ranked pari passu with fixed deposits. The difference is that you are not obligated to hold the CD to maturity, you can realise the cash by selling in the secondary market.

**Coupon** is the total amount of interest a security will pay. The coupon period depends on the security. A CD will often pay interest at maturity, while a bond may pay semi annually or annually and an FRN will most likely pay every 3 months.

**Covered bond** Covered bonds are conventional bonds (fixed or floating) issued by financial institutions, that are backed by a separate group of loans, usually prime residential mortgages. This lowers the creditor's exposure to default risk, enhancing the credit. This is why the issue is usually rated AAA, higher than the rating given to the issuer reduces exposure to bail-in risk.

**Credit rating** A measure of the credit worthiness of a borrower. A credit rating can be assigned to country, organisation or specific debt issue/ financial obligation. There are a number of credit ratings agencies but the main 3 are Standard & Poor's, Fitch or Moody's.

**MIFID** is the Markets in Financial Instruments Directive. A European Union Directive.

**Principal** is the total amount being borrowed or lent.

**Spread** is the difference between the buy and sell price of a security. It can also be the gap, usually in basis points, between the yield of a security and the benchmark security.

**Treasury bills (T-bills)** are UK government rated, short-dated form of Government debt, issued by the Debt Management Office (DMO) via a weekly tender. T-bills are normally issued for one, three or six month duration.

This page is intentionally left blank

**AUDIT COMMITTEE**  
**28 September 2017**

|   |  |
|---|--|
| <b>Subject Heading:</b>                   | Annual Statement of Accounts 2016/17   |
| <b>CLT Lead:</b>                          | Debbie Middleton   |
| <b>Report Author and contact details:</b> | Contact: Radwan Ahmed<br>Designation: Head of Finance –Financial Control & Corporate Business Systems<br>Telephone: 0203 373 0934<br>E-mail address:<br><a href="mailto:Radwan.Ahmed@oneSource.co.uk">Radwan.Ahmed@oneSource.co.uk</a> |
| <b>Policy context:</b>                    | Audit Committee responsible for approving accounts.  |
| <b>Financial summary:</b>                 | There are no direct financial implications from the report.  |

**The subject matter of this report deals with the following Council Objectives**

|                               |     |
|-------------------------------|-----|
| Communities making Havering   | [X] |
| Places making Havering        | [X] |
| Opportunities making Havering | [X] |
| Connections making Havering   | [X] |

**SUMMARY**

The Council’s Statement of Accounts is required to be published after the conclusion of the external audit of accounts; no later than 30<sup>th</sup> September 2017. At this stage our auditors, Ernst and Young, expect to issue an unqualified opinion on the Statement of Accounts.

## RECOMMENDATIONS

The Committee is asked to:

- a) Approve the Statement of Accounts confirming that no amendments are required to be made to the accounts in respect of the items set out in the auditors' report.
- b) note that the audited accounts must be published by 30<sup>th</sup> September 2017.
- c) Note the amendments to the accounting policies arising from the audit of the accounts set out at paragraph 2 of the Report.

## REPORT DETAIL

### 1. **Statement of Accounts 2016/17**

Our auditors, Ernst and Young, have completed their audit of the Statement of Accounts and expect to issue an unqualified opinion. A formal report on their findings is included as item 6 on the agenda.

The draft Statement of Accounts is shown at Appendix A, changes agreed with the auditors have not been incorporated at this stage. Any adjustments will be advised to Members at the Committee meeting.

Following approval by this Committee, the accounts must be signed by the Chair of the Committee and the Chief Financial Officer.

### 2. **Accounting Policies**

The Audit Committee meeting of 1<sup>st</sup> March 2017 noted the accounting policies applicable to the financial year 2016/17, and these are reflected in the draft Statement of Accounts.

## IMPLICATIONS AND RISKS

### **Financial Implications and Risks:**

There are no material financial implications arising directly from the publication of accounts.

### **Legal Implications and risks:**

On the basis that there are no specific issues raised by the external auditor, there are no legal implications arising directly from this report.

### **Human Resources Implications and risks:**

None arising directly

### **Equalities and Social Inclusion Implications and risks:**

None arising directly

## BACKGROUND PAPERS

Working papers held within the Corporate Finance section.  
Draft Statement of Accounts 2016/17

## **Appendix A**

### **London Borough of Havering**

#### **Statement of accounts for the financial year 2016/17**

**AUDIT COMMITTEE**  
**28 September 2017**

|   |  |
|---|--|
| <b>Subject Heading:</b>                   | Report To Those Charged With Governance<br>International Standard of Auditing (ISA) 260  |
| <b>CLT Lead:</b>                          | Debbie Middleton   |
| <b>Report Author and contact details:</b> | Contact: Radwan Ahmed<br>Designation: Head of Finance –Financial Control & Corporate Business Systems<br>Telephone: 0203 373 0934<br>E-mail address:<br><a href="mailto:Radwan.Ahmed@oneSource.co.uk">Radwan.Ahmed@oneSource.co.uk</a> |
| <b>Policy context:</b>                    | Audit Committee responsible for approving accounts.  |
| <b>Financial summary:</b>                 | There are no direct financial implications to the report.  |

**The subject matter of this report deals with the following Council Objectives**

|                               |     |
|-------------------------------|-----|
| Communities making Havering   | [X] |
| Places making Havering        | [X] |
| Opportunities making Havering | [X] |
| Connections making Havering   | [X] |

**SUMMARY**

The draft ISA 260 report from the external auditor Ernst and Young will be included as Appendix A and presented by the auditors at the meeting. It will summarise their findings from the 2016/17 audit to date. The ISA 260 report will set out key issues that have been considered by the auditors when considering their opinion,

conclusion and certificate. Officers' responses will be included in the ISA 260 report.

The draft of the Letter of Representation will be included as appendix B.

At this stage the auditors expect to issue an unqualified opinion on the financial statements by the 30<sup>th</sup> September 2017.

## **RECOMMENDATIONS**

To note the contents of the Report to Those Charged with Governance (ISA260) and the draft Letter of Representation and consider any issues raised by the external auditor.

## **REPORT DETAIL**

Regulation 11 of the Accounts and Audit Regulations 2015 requires the publication of the Statement of Accounts after the conclusion of the audit, but in any event no later than the 31<sup>st</sup> July. Transitory provisions (regulation 21) amend this to 30<sup>th</sup> September for the 2015/16 and 2016/17 accounts.

The draft report from the external auditor at Appendix A summarises their findings from the 2016/17 audit to date. It sets out key findings that were considered by the auditors when considering their opinion, conclusion and certificate.

The Committee is also asked to consider the draft Letter of Representation, Appendix B, setting out the assurances required of the Chief Financial Officer by the auditors.

At this stage the auditors expect to issue an unqualified opinion on the financial statements by the 30th September 2017.



**Financial Implications and Risks:**

There are no financial implications or risks arising directly from this report. Any financial consequences arising from the outcome of the audit of accounts and recommendations set out by the external auditor will be addressed as part of the Council's response.

**Legal Implications and risks:**

On the basis that there are no specific issues raised by the external auditor, there are no legal implications arising directly from this report.

**Human Resources Implications and risks:**

None arising directly

**Equalities and Social Inclusion Implications and risks:**

None arising directly

**BACKGROUND PAPERS**

Working papers held within the Corporate Finance section.

Draft statement of Accounts 2016/17

## **Appendix A**

**Report to the Audit Committee of the authority on the audit of the statement of accounts and pension fund accounts for the year ended 31 March 2017 (ISA (UK&I) 260)**

## **Appendix B**

**Representation letter – audit of the London Borough of Havering’s (“the Authority”) Statement of Accounts for the year ended 31 March 2017**

This page is intentionally left blank