AGENDA

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE MEETING

Date: Monday 16 January 2017
Time: 6.30 p.m.
Venue: Town Hall, High Street, Maidstone

Membership:

Councillors Adkinson, Coulling (Parish Representative), Daley, English, Fissenden, Garland, McLoughlin (Chairman), Perry, Revell, Mrs Riden (Parish Representative) and Vizzard

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1. Apologies for Absence
2. Notification of Substitute Members
3. Notification of Visiting Members

Continued Over/:

Issued on Friday 6 January 2017

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Alison Broom

Alison Broom, Chief Executive, Maidstone Borough Council, Maidstone House, King Street, Maidstone, Kent ME15 6JQ

MAIDSTONE BOROUGH COUNCIL

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

MINUTES OF THE MEETING HELD ON 21 NOVEMBER 2016

Present: **Councillor McLoughlin (Chairman) and Councillors Adkinson, D Burton, Coulling (Parish Representative), Daley, English, Garland, Revell, Mrs Riden (Parish Representative) and Vizzard**

Also Present: **Matt Dean of Grant Thornton (External Auditor)**

33. APOLOGIES FOR ABSENCE

It was noted that apologies for absence had been received from Councillor Perry.

34. NOTIFICATION OF SUBSTITUTE MEMBERS

It was noted that Councillor D Burton was substituting for Councillor Perry.

35. URGENT ITEM

The Chairman stated that, in his opinion, the management response to the critical recommendation arising from the Internal Audit review of Hazlitt Arts Centre Contract Monitoring should be taken as an urgent item as it provided an update on a matter to be considered at the meeting.

36. NOTIFICATION OF VISITING MEMBERS

There were no Visiting Members.

37. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

38. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

39. EXEMPT ITEMS

RESOLVED: That the items on the agenda be taken in public as proposed.

40. MINUTES OF THE MEETING HELD ON 19 SEPTEMBER 2016

RESOLVED: That the Minutes of the meeting held on 19 September 2016 be approved as a correct record and signed.

41. MATTERS ARISING FROM THE MINUTES OF THE MEETING HELD ON 19 SEPTEMBER 2016

Minute 26 – Complaints Received Under the Members' Code of Conduct

Councillor Coulling asked that the Interim Deputy Head of Legal Partnership be thanked for the information which she had provided in response to the request for clarification regarding the legal basis which required the Borough Council, as the principal authority, to deal with complaints relating to Parish Councillors.

Councillor Coulling commented that the penultimate paragraph of the advice made the position clear in that whilst it was the responsibility of the Borough Council, as the principal authority, to have arrangements in place to deal with and investigate complaints, it could not compel any person to co-operate with such an investigation. In addition, the Borough Council, as the principal authority, could not impose sanctions on a Parish Councillor and could only make recommendations to the Parish Council. It was for the Parish Council to decide, as a relevant authority, what action, if any, to take.

Minute 29 – Audited Statement of Accounts 2015/16

In response to a question by the Chairman, the Director of Finance and Business Improvement confirmed that more information relating to the collection statistics in respect of Council Tax and Business Rates would be circulated to all Members of the Committee and to the Parish Council representatives.

Minute 30 – External Audit Procurement

The Director of Finance and Business Improvement advised the Committee that a report would be submitted to the next meeting of the Council recommending that it accept Public Sector Audit Appointments' invitation to opt-in to the sector led option for the appointment of External Auditors for five financial years starting from 1 April 2018.

42. COMMITTEE WORK PROGRAMME 2016/17

The Committee considered its work programme for 2016/17.

RESOLVED: That the Audit, Governance and Standards Committee work programme for 2016/17 be noted.

43. ANNUAL GOVERNANCE STATEMENT ACTION PLAN 2016/17 - UPDATE

The Committee considered the report of the Head of Policy and Communications updating progress against the Annual Governance Statement Action Plan 2016/17. It was noted that the Action Plan was produced and published with the Annual Governance Statement for 2015/16. It focused on areas identified in the Annual Governance Statement as requiring additional action and assurance including training and communication on information management; residents' involvement in decision making; risk management; and audit reviews with weak assurance ratings. Action had been taken in all areas as set out in Appendix A to the report.

It was suggested that the section of the Action Plan relating to residents' involvement in decision making might need to be updated after the establishment of the new Member sounding board for communications.

In response to questions, the Head of Policy and Communications explained that the next Annual Governance Statement reviewing the effectiveness of the governance arrangements in place for 2016/17 would be submitted to the Committee in June/July 2017. It would include an action plan for 2017/18 arising from the review.

RESOLVED: That the Annual Governance Statement Action Plan 2016/17 update be noted.

Note: Councillor Revell entered the meeting during consideration of this item (6.40 p.m.).

44. INTERIM INTERNAL AUDIT & ASSURANCE REPORT

The Head of Audit Partnership introduced his report providing a mid-year update on work conducted by Mid-Kent Audit in pursuance of the audit plan approved by the Committee in March 2016. The report also included an update on 2015/16 work concluded too late for inclusion with the 2015/16 annual report in June 2016 and an update on the Mid-Kent Audit Service generally, including the most recent outturn against performance measures.

It was noted, inter alia, that:

- The audit review findings so far included a cluster of weak assurance reports which shared similar characteristics principally relating to issues around the 'second line of defence'. This covered those controls which worked to identify and correct any failures in the Council's direct management controls before they could expose the Council to risk or harm. Some of the findings so far signalled that certain of these second line controls were not working consistently or comprehensively.

- The weaknesses applied specifically to areas where the Council had entered new areas of business (such as Mote Park and Cobtree Cafés), management of new ways of working (Section 106 Agreements) and working through third parties (Hazlitt Arts Centre Contract Monitoring).

- The overall message had been shared with senior management which had independently identified some of the key weaknesses, was already acting to address them, and would take further action in response to their own review and audit recommendations.

- In the first half of 2016/17 the Internal Audit Service had issued a critical recommendation relating to its work in reviewing Hazlitt Arts Centre Contract Monitoring; specifically, this related to the resolution of the findings of the ROSPA Fire Risk Assessment and the adequacy of some of the fire doors in the building. The initial management response to the critical recommendation and further information was now available.

- The report provided further information on recommendations arising from audit reviews, and, with one exception, the Council was on track with implementing the recommendations.

- In terms of progress in respect of reviews which had provided only weak assurance ratings, some areas had been re-assessed as sound following implementation of recommendations, but further work was required to achieve that level in other areas (such as Mote Park and Cobtree Cafés).

- Since the adoption of the Council's new Whistleblowing Policy in September 2016, a few issues had been raised, but none had resulted in serious findings.

- The Head of Audit Partnership was confident, given progress to date, that the audit plan would be completed within budgeted days.

In response to a question regarding continued discrepancies in takings reconciliations at the Mote Park and Cobtree Cafés, the Head of Audit Partnership explained that the Council had brought the Mote Park and Cobtree Café service back in-house towards the end of 2015. The in-house operation was examined by Internal Audit the following spring, and it was found that takings reconciliations were incorrect. Whilst Internal Audit was satisfied that there was no evidence of fraud, it had made a recommendation that takings reconciliations should be addressed to make them more accurate. On re-examining the service later in the year, it was found that whilst satisfactory controls were in place at the Mote Park Café, this was not the case at the Cobtree Café. Internal Audit had provided further advice on takings reconciliations and had been following up its recommendations over the last few weeks. An update on progress would be included in the next report to management.

During the ensuing discussion, reference was made to the following issues:

Section 106 Agreements

Noting the audit review finding that there were weak controls in operation to manage the risks associated with recording and monitoring Section 106 Agreements, a Member expressed disappointment that, notwithstanding the efforts made by Councillors of all parties, concerns had been raised about monitoring spend by dates with the Council having to return funds to developers unused and further balances identified as being at risk.

The Committee was mindful that a review was being undertaken of the Planning Service and that Section 106/CIL management would form part of that review. It was pointed out that there seemed to be some reluctance on the part of some service departments to draw down and spend developer contributions, and this should form part of the discussion.

The Head of Audit Partnership undertook to look into whether details of the Section 106 contributions returned to developers unused could be circulated to all Members of the Committee and to the Parish Council representatives.

Contract/Project Management, Monitoring and Reporting

Arising from the audit review finding that there were weak controls in operation within the service to monitor the contract for the management and operation of the Hazlitt Arts Centre, the Committee discussed the arrangements for the implementation and monitoring of contracts for outsourced services and for the management of new areas of business, having regard also to the Council's commercialisation agenda.

The Committee felt that in outsourcing services, the Council should make clear in the contract documentation precisely what was required and ensure that adequate contract monitoring and reporting procedures were in place. Failure to monitor these contracts properly was a serious issue. It was the role of Internal Audit to check that the monitoring reports were forthcoming and acted upon. Similarly project management arrangements in respect of new areas of business such as the Mote Park and Cobtree Cafés needed more attention.

The Director of Finance and Business Improvement assured Members that management took the findings of these audit reviews very seriously, and was acting to address the audit recommendations, although it would take some time before the effects showed through in audit reporting. A report could be submitted to the Committee on the progress being made on the implementation of the recommendations.

The Head of Audit Partnership advised the Committee that contract monitoring arrangements were reviewed from time to time by Internal Audit. Last year, audit reviews of the Leisure Centre and Waste Management contracts found that sound controls were in place. To provide further assurance, a report could be submitted to a future meeting setting out the findings of audit work undertaken in respect of the top ten contracts (in terms of cost) in recent years. If the work had not yet been done, details could be provided of when it would fall due in audit planning.

In response to comments by Members as to whether the weaknesses found were indicative of a systemic issue, the Director of Finance and Business Improvement advised the Committee that he did not think that it had been established that this was the case. Some contracts were very effectively managed, but the audit review of the Hazlitt Arts Centre Contract Monitoring had identified that there were lessons to be learned in terms of the monitoring of contracts for outsourced services.

It was suggested that, in terms of lessons learned, the Officers should be seeking to ensure best practice and effectiveness in contract preparation and implementation and monitoring and reporting processes, particularly when moving to new areas of business and working through third parties.

The Committee noted the progress in achieving the 2016/17 internal audit and assurance plans and the findings so far, and asked the Officers to consider the points raised in the discussion on contract/project management, monitoring and reporting, and to report back to a future meeting with views.

RESOLVED:

1. That the progress in achieving the 2016/17 internal audit and assurance plans and the findings so far be noted.

2. That the Officers be requested to consider the points raised in the discussion on contract/project management, monitoring and reporting, and to report back to a future meeting with views.

3. That the Head of Audit Partnership and the Internal Audit Team be thanked for their performance and achievements to date.

45. TREASURY MANAGEMENT HALF YEARLY REVIEW 2016/17

The Committee considered the report of the Director of Finance and Business Improvement setting out details of the activities of the Treasury Management function for the first six months of the financial year 2016/17 in accordance with CIPFA’s Code of Practice on Treasury Management in Local Authorities in the context of the current economic environment. It was noted that:

- The Bank of England base rate had fallen to 0.25% in August 2016. This had led to a reduction in investment returns across the board. The Council had used highly rated institutions to invest its funds and had kept all new investments during the first 6 months of 2016/17 short term (less than one year). The sum of £11.25m was held within Money Market Funds which were AAA rated funds and could be called upon instantly for meeting the Council’s liabilities and to fund its capital programme. Total investments as at 30 September 2016 amounted to £25.25m.

- The average rate of return on Council investments was 0.77%. However, with rates falling lower, this average would reduce over the year.

- Investment income for the year as at 30 September 2016 totalled £106k.

- At 31 March 2016 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was (£1.2m) negative, showing that the capital programme was affordable without recourse to borrowing. However, the Council had a forecasted CFR of £10m due to the expanded capital programme in 2016/17. As at 30 September 2016 there had been no need for the Council to borrow, due to slippage of capital expenditure into 2017/18. Furthermore, it did not appear that borrowing would be necessary to fund capital expenditure during the current year.

In response to questions, the Officers explained that:

- In terms of the Council's investment profile and rates of return, the investments with Standard Life and Federated Investors (UK) were Money Market Funds where funds were invested over a large portfolio of institutions. These were AAA rated funds and the investments were for a maximum two year term. The accounts were instant access which was why the rates of return were so low.

- The instant access investments were required due to the Council's role as billing authority in the collection of Business Rates and Council Tax, fluctuations in cash balances from these sources and payments being due to preceptors. The other investments were fixed term.

- Investments were benchmarked against the 3 month LIBOR rate plus 20 basis points. 3 month LIBOR was 0.3828% as at 30 September 2016, plus the 20 basis points making the benchmark 0.5828%. The Council was currently operating at 32 basis points above this rate, but this was unlikely to be sustainable. When the investment with the Royal Bank of Scotland, with a rate of return of 1.440%, matured in March 2017, the average rate of return would reduce considerably.

- In the event of borrowing being necessary, the rate would depend on the nature of the loan, but typically the Council would be looking at a longer term loan of between 25 to 50 years+.

<u>RESOLVED</u>:

1. That the position with regard to the Treasury Management Strategy as at 30 September 2016 be noted.

2. That no amendments to the current procedures are necessary as a result of the review which has been undertaken of the activities of the Treasury Management function in 2016/17 to date.

46. EXTERNAL AUDITOR'S ANNUAL AUDIT LETTER

The Committee considered the External Auditor's Annual Audit Letter summarising the main findings from the work undertaken by the External Auditor for the year ended 31 March 2016. It was noted that:

- The External Auditor had given an unqualified opinion on the Council's accounts on 22 September 2016, in advance of the 30 September 2016 national deadline.
- The External Auditor was satisfied that in all significant respects the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

In response to a question regarding the references made in the Annual Audit Letter to income generation (specifically, the additional income achieved against targets and whether it was a one-off sum or an income stream that could be base budgeted for), the Director of Finance and Business Improvement explained that the budget for 2016/17 required savings of £2,178k to be identified. Of this £679k came from additional income generation, including items which did not form part of the commercialisation agenda. The Council had set a target of delivering £1m of additional income from its commercialisation agenda over the medium term, and £460k had been delivered to date. A report would be considered by the Policy and Resources Committee later in the week reviewing the progress made on commercialisation initiatives.

RESOLVED: That the External Auditor's Annual Audit Letter for the year ended 31 March 2016, attached as Appendix I to the report of the Director of Finance and Business Improvement, be noted.

47. EXTERNAL AUDIT UPDATE NOVEMBER 2016

The Committee considered the report of the External Auditor setting out plans for the 2016/17 audit. The report also included a summary of emerging national issues and developments of relevance to the local government sector.

RESOLVED: That the External Auditor's update report, attached as an Appendix to the report of the Director of Finance and Business Improvement, be noted.

48. DURATION OF MEETING

6.30 p.m. to 7.45 p.m.

Audit Governance & Standards Committee	**16 January 2017**
Is the final decision on the recommendations in this report to be made at this meeting?	**N/A**

Complaints received under the Members Code of Conduct

Final Decision-Maker	Audit Governance & Standards Committee
Lead Head of Service	Estelle Culligan – Interim Head of Legal Partnership
Lead Officer and Report Author	Donna Price – Interim Deputy Head of Legal Partnership
Classification	Public
Wards affected	All

This report makes the following recommendations to this Committee:

1. The Committee are asked to note the contents of the report.

This report relates to the following corporate priorities:

- Keeping Maidstone Borough an attractive place for all
- Securing a successful economy for Maidstone Borough

Promoting the Code of Conduct and dealing with complaints effectively and efficiently is essential in ensuring high standards of conduct amongst members are upheld as this is an integral part of the decision making processes and delivery of the council's priorities.

Timetable	
Meeting	***Date***
Audit Governance & Standards Committee	16 January 2017

Complaints received under the Members Code of Conduct

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1 This is the fourth report by the Monitoring Officer updating the committee on complaints received under the Members' Code of Conduct. This report provides an update for the period 1 September 2016 to 31 December 2016.

1.2 The committee are asked to note the contents of the report.

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2. INTRODUCTION AND BACKGROUND

2.1 It is a requirement under the Localism Act 2011 that all Councils adopt a Code of Conduct and that the Code adopted must be based upon the Nolan Principles of Conduct in Public Life. The current Members' Code of Conduct ("the Code") for Maidstone Borough Council is set out in the Constitution adopted in May 2015 (and is unchanged from the previous Code of Conduct).

2.2 The Localism Act 2011 requirement to adopt a Code of Conduct also applied to all the Parish Councils. Consequently, all the Parish Councils in the Maidstone area adopted their own Codes of Conduct with the majority adopting the Borough Council's Code of Conduct.

2.3 Under the Localism Act 2011 Maidstone Borough Council is responsible for dealing with any complaints made under the various Codes of Conduct throughout the Maidstone area.

2.4 At the Full Council meeting in May 2015 the Council adopted arrangements for dealing with all complaints received under the Code of Conduct. In addition it was resolved that oversight of Code of Conduct complaints would fall under the terms of reference of the Audit, Governance and Standards Committee.

2.5 As part of the committees oversight function it is agreed that the Monitoring Officer provide reports on complaints to the Audit, Governance and Standards Committee. It should be noted that the Localism Act 2011 repealed the requirement to publish decision notices; therefore in providing the update to the committee the names of the complainant and the councillor complained about are both kept confidential in accordance with the Data Protection Act 1998.

2.6 Since the last report to this Committee on 19 September 2016 there have been three new complaints.

2.7 Of the three complaints received two related to borough councillors and one related to a parish councillor.

2.8 As of 5 January 2017 one complaint is at the initial assessment stage, one was not progressed as it failed the legal jurisdiction test and one was not progressed as it failed the local assessment criteria.

2.9 In the last report to the Committee two complaints were awaiting initial assessment. Of these one has been concluded with a finding that there was no breach of the Code of Conduct and one was not progressed as it failed the local assessment criteria.

2.10 The new Constitution provides for a Hearings Sub-Committee to meet to consider any complaint which remains valid after investigation and consideration by the Monitoring Officer in consultation (as required) with the Independent Person. To date the Hearings Sub-Committee has not yet been required to meet.

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3. PREFERRED OPTION

3.1 That the committee note the update on complaints received under the Member's Code of Conduct.

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4. CONSULTATION

4.1 Members of the Audit Governance and Standards Committee and the independent person in accordance with the relevant complaints procedure will be consulted with on individual complaints as and when necessary.

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5. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	High standards of conduct are essential amongst members in delivering the council's priorities and the Code of Conduct and complaints procedure supports this.	Team Leader Corporate Governance
Risk Management	An effective Code of Conduct and robust complaints procedure minimises the risk of member misconduct and is part of an effective system of governance.	Team Leader Corporate Governance
Financial	Should it be necessary to appoint external Independent Investigators the cost of this will be met by the Borough Council	Team Leader Corporate Governance
Staffing	The complaints procedure is	Team Leader

	dealt within the remit of the Monitoring Officer with input from the Legal Team as required.	Corporate Governance
Legal	The requirements of the Localism Act 2011 with regards to the Code of Conduct and complaints procedure are set out within the report. The reporting process ensures that the committee continues it's oversight of the Code of Conduct as required by the Constitution.	Team Leader Corporate Governance
Equality Impact Needs Assessment	Any potential to disadvantage or discriminate different groups within the community should be overcome within the adopted complaints procedures.	Policy and Information Manager
Environmental/Sustainable Development	N/A	
Community Safety	N/A	
Human Rights Act	All complaints are dealt with in the context of the Human Rights Act	Team Leader Corporate Governance
Procurement	N/A	
Asset Management	N/A	

6. REPORT APPENDICES

None

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7. BACKGROUND PAPERS

None

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE	16 JANUARY 2017
Is the final decision on the recommendations in this report to be made at this meeting?	**Yes**

Housing Benefit Grant Claim

Final Decision-Maker	Audit, Governance and Standards Committee
Lead Head of Service	Sheila Coburn
Lead Officer and Report Author	Liz Norris
Classification	Public
Wards affected	All

This report makes the following recommendations to this Committee:

1. That the Committee notes the Grant Thornton assurance that the Council maintains a strong control environment for the preparation and monitoring of grant claims and returns.

This report relates to the following corporate priorities:

In maintaining effective financial controls the Council is able to confidently progress its priorities.

- Keeping Maidstone Borough an attractive place for all
- Securing a successful economy for Maidstone Borough

Timetable	
Meeting	***Date***
Audit, Governance and Standards Committee	16th January 2017

Housing Benefit Grant Claim

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1 To consider the outcome of the Grant Thornton work to certify the subsidy claim that the Council submitted during 2015-2016.

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2. INTRODUCTION AND BACKGROUND

2.1 Grant Thornton undertook work to certify the Housing Benefit grant claim that was submitted by the Council with a value of £47.3 million, with the process completed in advance of the 30th November 2016 deadline set by the Department of Work and Pensions.

2.2 The level and form of testing reflect the value and specific requirements of the grant paying body, as detailed within Appendix A.

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3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

3.1 Report is provided for information only.

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4. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

4.1 Report is provided for information only.

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5. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	In maintaining effective financial controls the Council is able to confidently progress its priorities	Head of Revenues and Benefits
Risk Management	Certification provides external assurance to the Council on the effectiveness of its contents around accurate payment and recording of benefit expenditure	Head of Audit Service
Financial	The financial considerations have been outlined within the	Section 151

	body of the report and attached appendices	Officer
Staffing	No Impact	Head of Revenues and Benefits
Legal	No Impact	Interim Deputy Head of Legal Partnership
Equality Impact Needs Assessment	No Impact	Head of Revenues and Benefits
Environmental/Sustainable Development	No Impact	Head of Revenues and Benefits
Community Safety	No Impact	Head of Revenues and Benefits
Human Rights Act	No Impact	Head of Revenues and Benefits
Procurement	No Impact	Head of Revenues and Benefits
Asset Management	No Impact	Head of Revenues and Benefits

6. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

- Appendix A: Grant Thornton Certification Letter

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7. BACKGROUND PAPERS

None.

Grant Thornton
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6 January 2017

Dear Mark

Certification work for Maidstone Borough Council for year ended 31 March 2016

We are required to certify the Housing Benefit subsidy claim submitted by Maidstone Borough Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments (PSAA) have taken on the transitional responsibilities for HB COUNT issued by the Audit Commission in February 2015

We have certified the Housing Benefit subsidy claim for the financial year 2015/16 relating to subsidy claimed of £47.3 million. Further details are set out in Appendix A.

An issue was identified in the prior year around the classification of Non-HRA Overpayments, which resulted in the Council performing additional work and making an amendment to the final 2014/15 Claim Form. The Council undertook the same review ahead of the submission of the 2015/16 Claim Form and made amendments where required. We reviewed this work and agreed with the Council's findings, which enabled us to certify the Claim Form without the need for any amendments or a Qualification Letter, which is an achievement the Council should be proud of.

The indicative fee for 2015/16 for the Council was based on the final 2013/14 certification fees, reflecting the amount of work required by the auditor to certify the Housing Benefit subsidy claim that year. The indicative scale fee set by the Audit Commission for the Council for 2015/16 was £11,418, and this will be the final fee charged given the lack of issues identified from our work on the Claim. This is set out in more detail in Appendix B.

Yours sincerely

Grant Thornton UK LLP

Appendix A - Details of claims and returns certified for 2015/16

Claim or return	Value	Amended?	Amendment value	Qualified?	Comments
Housing benefits subsidy claim	£47,279,283	No	Nil	No	As mentioned above, the Council undertook a full review of all Non-HRA Overpayments to ensure they were correctly classified prior to the Claim being submitted, which resulted in no errors being found in these Cells and thus no amendments were required to the Claim Form submitted for audit.

Appendix B: Fees for 2015/16 certification work

Claim or return	2013/14 fee (£)	2015/16 indicative fee (£)	2015/16 actual fee (£)	Variance (£)	Explanation for variances
Housing Benefits Subsidy Claim (BEN01)	£15,224	£11,418	£11,418	Nil	N/A

Agenda Item 10

Audit, Governance and Standards Committee	16 January 2017
Is the final decision on the recommendations in this report to be made at this meeting?	**No**

Budget Strategy – Risk Assessment

Final Decision-Maker	Council
Lead Director	Director of Finance and Business Improvement
Lead Officer and Report Author	Director of Finance and Business Improvement
Classification	Public
Wards affected	All

This report makes the following recommendation:

1. That the Audit Governance and Standards Committee considers the risk assessment of the Budget Strategy provided at Appendix A and makes comment or recommendations to Policy and Resources Committee for consideration on 15 February 2017.

This report relates to the following corporate priorities:

- Keeping Maidstone Borough an attractive place for all
- Securing a successful economy for Maidstone Borough

Timetable	
Meeting	***Date***
Audit, Governance and Standards Committee	16 January 2017
Policy and Resources Committee	15 February 2017
Council	1 March 2017

Budget Strategy – Risk Assessment

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1 As part of the annual process of updating the Medium Term Financial Strategy and setting a budget for the coming financial year, Service Committees are currently considering budget proposals for the year 2017/18 and the remainder of the five year medium term strategy planning period.

1.2 As the remit of the Audit Governance and Standards Committee includes consideration of risk, it is also appropriate that the budget setting process is considered by this Committee, with a specific emphasis on the risk analysis produced by the Finance Service for the Budget Strategy.

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2. INTRODUCTION AND BACKGROUND

2.1 A Medium Term Financial Strategy and Efficiency Plan was approved by Council in September 2016. Officers have subsequently developed detailed budget proposals for 2017/18 and the remaining four years of the medium term financial strategy. The approach has been to manage the overall risk of non-delivery of savings by adopting a blended approach, incorporating:

- efficiency savings
- income generation
- transformation and business improvement
- service reductions.

'Transformation and business improvement' can be distinguished from efficiency savings because, rather than simply seeking to carry out the same activities at lower cost, it aims to achieve the same outcomes, but in a different way. Service reductions are included within the budget proposals but remain a last resort.

2.2 The revenue budget proposals may be summarised as follows.

Committee	17/18	18/19	19/20	20/21	21/22	Total
	£m	£m	£m	£m	£m	£m
Communities, Housing & Environment	0.3	0.4	0.2	0.1	0.0	1.0
Heritage, Culture & Leisure	0.1	0.2	0.1	0.0	0.0	0.4
Policy & Resources	0.9	0.3	0.0	0.0	0.0	1.2
Strategic Planning, Sustainability & Transportation	0.2	0.2	0.1	0.1	0.0	0.6
TOTAL	**1.5**	**1.1**	**0.4**	**0.2**	**0.0**	**3.2**

It can be seen that cumulative savings of £3.2 million have been identified as compared with a budget gap over the same period of £4 million. However, the savings, if adopted, would allow a balanced budget to be set in 2017/18, since the budget gap of £1.5 million is covered by proposed savings of £1.5 million. Further work will be required to identify means of closing the budget gap over the five year period of the MTFS as a whole.

2.3 Appendix A describes the budget risks in the form of a risk register. This presentation is easy to grasp and helps to ensure that risks are considered in a comprehensive way. It should however be recognised that risks are not usually discrete. There are interrelationships between the risks, such that (for example) inaccurate inflation projections could impact the overall risk of failing to deliver a balanced budget.

2.4 Budget risks were last considered by the Audit Governance and Standards Committee in January 2015. Many of the risks identified then remain as risks today. The detailed description of the risks and the risk assessments have been updated as appropriate.

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3. AVAILABLE OPTIONS

3.1 The Committee may wish to consider further risks not detailed in Appendix A or vary the impact or likelihood of any risks. This will impact the Finance Section's service planning for 2017/18 and will be reported to Policy and Resources Committee for consideration along with the Medium Term Financial Strategy on 15 February 2017.

3.2 There is no constitutional requirement for Policy and Resources Committee to consult with the Audit Governance and Standards Committee on this matter, and it is open to the Committee to make no comments or recommendations.

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4. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

4.1 Each year the council as part of the development of the Strategic Plan and MTFS carries out consultation on the priorities and spending of the council.

4.2 Consultation on the budget in Autumn 2016 took the form of a short survey. Residents were asked to prioritise ten areas of spending and then to consider whether the spending for those ten areas should remain the same, be reduced or cut altogether. The survey could be accessed both as a paper document or on-line via the Council's website. It was promoted through face to face budget roadshows at a wide range of venues around the borough, in the Kent Messenger and in a range of other media.

4.3 The results of the consultation are set out in reports to the Service Committees on the budget proposals. Members therefore have the opportunity to take these findings into account when considering the budget proposals.

5. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

5.1 The next step will be the consideration of any comments that the Audit, Governance and Standards Committee wishes to make at the meeting of Policy and Resources Committee on 15 February 2017, prior to budget proposals being submitted for consideration by Full Council on 1 March 2017.

6. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	The Medium Term Financial Strategy and the budget are a re-statement in financial terms of the priorities set out in the strategic plan. They reflect the Council's decisions on the allocation of resources to all objectives of the strategic plan.	Director of Finance and Business Improvement
Risk Management	Matching resources to priorities in the context of the significant pressure on the Council's resources is a major strategic risk. Specific risks are set out in Appendix A.	Director of Finance and Business Improvement
Financial	The budget strategy and the MTFS impact upon all activities of the Council. The future availability of resources to address specific issues is planned through this process.	Director of Finance and Business Improvement
Staffing	The process of developing the budget strategy will identify the level of resources available for staffing over the medium term.	Director of Finance and Business Improvement
Legal	The Council has a statutory obligation to	Director of

	set a balanced budget and development of the MTFS and the strategic revenue projection in the ways set out in this report supports achievement of a balanced budget.	Finance and Business Improvement
Equality Impact Needs Assessment	The Council's budgeted expenditure will have a positive impact as it will enhance the lives of all members of the community through the provision of resources to core services. In addition it will affect particular groups within the community. It will achieve this through the focus of resources into areas of need as identified in the Council's strategic priorities.	Director of Finance and Business Improvement
Environmental/Sustainable Development	The resources to achieve the Council's objectives are allocated through the development of the Medium term Financial Strategy.	Director of Finance and Business Improvement
Community Safety	The resources to achieve the Council's objectives are allocated through the development of the Medium term Financial Strategy.	Director of Finance and Business Improvement
Human Rights Act	None	
Procurement	The resources to achieve the Council's objectives are allocated through the development of the Medium term Financial Strategy.	Director of Finance and Business Improvement
Asset Management	Resources available for asset management are contained within the budget proposals.	Director of Finance and Business Improvement

7. BACKGROUND PAPERS

None.

APPENDIX A

Budget Strategy Risks

Summary

As part of the budget strategy we have conducted an assessment of the associated risks. The risk matrix below provides a summary of the key risks, and the risk register that follows provides more detail on each risk.

Likelihood						
	5					
	4					
	3			D, F	J	
	2		M	B, E, G, K, L	A, H	
	1		I	C		
		1	2	3	4	5
		Impact				

A. Failure to deliver a balanced budget
B. Insufficient balances
C. Inaccurate inflation rate prediction
D. Changes in government economic strategy
E. Constraints on council tax increases
F. Fees & Charges
G. Commercialisation
H. Funding the capital programme
I. Financial Regulation
J. Delivery of planned savings
K. Business Rates & Council Tax collection
L. Business Rates pool
M. Shared services

Budget Strategy Risk Register 2017/18

The following risk register sets out the key risks to the budget strategy 2017/18 onwards. The register sets out the consequences of each risk and the existing controls in place. These risks will be monitored on a regular basis and updated where necessary or if circumstances change.

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
A	**Failure to deliver a balanced budget** Stages of the budget setting process fail resulting in Council breaching the legal requirement to set a balanced budget	Management of the Council would be removed from Members if it failed to set a balanced budget. Failure to plan for a balanced budget makes it more likely that the Council will have to rely on short term expedients to balance the budget from year to year, rather than following a coherent long term strategy.	- Embedded and well established budget setting process - Medium Term Financial Strategy - Broadly balanced position for the next three years (2017/18 – 2019/20)	4	2	8
B	**Insufficient Balances** Minimum balance is insufficient to cover unexpected events OR Minimum balances exceed the real need and resources are held without identified purpose with low investment returns	Additional resources would be needed which would result in immediate budget reductions or use of earmarked reserves. The Council would not gain best value from its resources as Investment returns are low in the current market.	- The Council has set a lower limit below which General Fund balances cannot fall of £2 million. - At the beginning of the 2016/17 financial year General Fund balances stood at £4.6 million.	3	2	6
C	**Inaccurate inflation rate predication** Actual levels are significantly above or below prediction	Unexpected rises will create an unbudgeted drain upon resources and the Council may not achieve its objectives without calling upon balances. Services have supported the budget strategy through savings. Levels below those expected would result in an increase in balances or unused resources that could be used to achieve strategic priorities.	- Allowances for inflation are developed from three key threads: ○ The advice and knowledge of professional employees ○ The data available from national projections ○ An assessment of past experience both	3	1	3

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
			locally and nationally - Current inflation projections are in line with the Bank of England and economic commentators.			
D	**Changes in government economic strategy** Unexpected shocks lead to changes in Local Government funding. Government strategy fails to address economic challenges, such as those which could arise from Brexit.	The Council will no longer receive Revenue Support Grant (RSG) after 2016/17, but will be subject to 'negative RSG' in 2019/20 and the amount of this negative RSG – effectively a government tax on the Council – could increase if public finances come under pressure.	- The medium term financial strategy to 2021/22 has been developed to allow for a significant impact on the Council's resources, - The Council has developed other sources of income to ensure it can maximise its resources while dealing with the consequences of government strategy.	3	3	9
E	**Constraints on council tax increases** The limit on Council Tax increases means that the Council must manage expenditure pressures even if these potentially give rise to cost increases greater than 2% per annum.	The limit on Council Tax increases means that additional pressures, such as those arising from providing temporary accommodation, have to be absorbed by making savings elsewhere.	- Planning for the budget 2017/18 has been based upon a £4.95 (2.06%) increase, as agreed by Policy and Resources Committee at its meeting on 29 June 2016 and subject to agreement by full Council at its meeting on 1st March 2017. - No issues have been raised in relation to the proposed increase through consultation.	3	2	6
F	**Fees & Charges** Fee charging services may be affected if there is a downturn in the economy, resulting in Fees and Charges failing to deliver the expected level of income.	The total value of all Council income from fees and charges is in excess of £16 million. A loss of income for service budgets will require restrictions on expenditure levels and delivery of all objectives may not be met.	- Fees and charges are reviewed each year, paying careful attention to the relevant market conditions - Where the Council is operating in a competitive market, the aim is to ensure price sensitivity does not lead to a loss of income. - Procedures are in place to ensure that fees and charges are billed promptly (or in advance) and that collection is maximised.	3	3	9

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	∑
G	**Commercialisation** The commercial activities currently being delivered and projected in the MTFS do not deliver the expected level of income.	The medium term financial strategy includes a contribution from commercial opportunities, so any shortfall would have an impact on the overall strategy. Income generation from commercial activities supports the revenue budget and is required in ordered to pay back capital investment.	- The Council set aside a provision of £0.5m against losses from activities that do not deliver. This provision is cash limited but available to cover short term losses. - Individual risks associated with specific projects within commercialisation strategy will be assessed, both as part of the project appraisal process and during the course of delivering the projects.	3	2	6
H	**Funding the capital programme** Reduction or total loss of funding sources means that the capital programme cannot be delivered	The main sources of funding are: ○ New Homes Bonus ○ Capital Grants ○ Prudential borrowing ○ Developer contributions (S106) A reduction in this funding will mean that future schemes cannot be delivered.	- Council has been able to fund the capital programme without recourse to borrowing, - Council has confirmed in the past that borrowing is acceptable if it meets the prudential criteria. - Local authorities continue to be able to access borrowing at relatively low cost through the Public Works Loan Board and our treasury advisers expect this to continue being the case.	4	2	8
I	**Financial Regulation** Complexity of financial and other regulations along with increasing delays in providing guidance reduce the ability of the Council to identify risks at an early stage.	On a small number of occasions the financial consequences of future events are likely to be significant. Failure to provide adequate warning would leave the council little time to prepare through the medium term financial strategy. In general these events bring consequences to other agencies and external relationships.	- The Council has formal procedures for monitoring new legislation, consultations and policy / guidance documents. - Our relationships with organisations such as the Council's external auditor provide access to additional knowledge regarding relevant future events.	2	1	2

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
J	**Delivery of planned savings** Failure to deliver savings and / or failure to monitor savings means that the Council cannot deliver a balanced budget	The level of saving required to achieve a balanced budget is significant and non-delivery of these savings will have a major consequence on managing financial viability of the organisation. Not achieving savings will impact the overall delivery of the Medium Term Financial Strategy and would require appropriate action, which might include the suspension of some Council services, redundancies, etc.	- The risks associated with delivery of savings proposed in the current Medium Term Financial Strategy have been reviewed as part of the budget setting process. - Savings proposals are separately identified and monitored in the Council's general ledger. - The ability to achieve the targeted savings is reported quarterly to Corporate Leadership Team and to Service Committees.	4	3	12
K	**Business Rates & Council Tax collection** Council fails to maintain collection targets for business rates and council tax	Failure to achieve collection targets will reduce the level of key resources to ensure a balanced budget. This will mean further cuts in other budgets or the cost of financing outgoing cash flow to other agencies in relation to taxes not yet collected. Business rates due are in excess of £60 million for 2017/18. Council tax due is in excess of £80 million per annum.	- The Council has a good track record of business rates and Council Tax collection. - Steps are taken to maximise collection rates, such as active debt collection, continual review of discounts, etc.	3	2	6
L	**Business Rates pool** Changes to rateable value (RV) or instability of business rates growth within the pool means that members require support from the Council	Membership of Business Rates Pool precludes access to the central government safety net. Changes in RV or instability in growth will result in a reduction in income from business rates and a potential consequence for the Council.	- Provisions exist so any loss of income would relate to the excess over the provision already made. - The pool is monitored quarterly Kent wide and Maidstone is the Pool administrator. - The Council has the ability to exit the pool on 1st April in any year by giving notice by the previous September.	3	2	6

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
M	**Shared Services** Shared services, which are not entirely under the Council's control, fail to perform within budgeted levels.	Failure of a shared service to manage within the existing budget will have the same consequences as for any overspending budget, ie it would require appropriate action, which might include the suspension of some Council services, redundancies, etc.	The arrangements governing shared services include a number of controls that minimise the risk of budget overspends and service failure, including quarterly reporting to a Shared Service Board comprising representatives of the authorities involved. The shared services are required to report regularly on financial performance and key indicators.	2	2	4

Impact & Likelihood Scales

RISK IMPACT

Level	Service risk	Reputation Risk	H&S	Legal Risk	Financial Risk	En'ment Risk
Catas-trophic (5)	Ongoing failure to provide an adequate service	Perceived as failing authority requiring intervention	Responsible for death	Litigation almost certain and difficult to defend. Breaches of law punishable by imprisonment or significant fines	Uncontrollable financial loss or overspend over £500k	Permanent, major environmental or public health damage
Major (4)	Failure to deliver Council priorities Poor service. Disrupted 5 days+	Significant adverse national publicity	Fails to prevent death, causes extensive perm injuries or LT sick		Financial loss or overspend greater than £250k	Long term major public health or environmental incident (1yr+)
Moderate (3)	Unsatisfactory performance Service disrupted/ stopped 3-5 days	Adverse national publicity or significant adverse local publicity	Fails to prevent extensive, permanent injuries or LT sickness	Litigation expected, but defensible Breaches of law punishable by fines	Financial loss or overspend greater than £50k	Medium term major public health or environmental incident (up to 1yr)
Minor (2)	Marginal reduction in performance Service disrupted/ stopped 1-2 days	Minor adverse local publicity	Medical treatment required, potential long term injury or sickness	Complaint likely, litigation possible Breaches of regs or standards	Financial loss or overspend greater than £10k	Short term public health or environmental incident (weeks)
Minimal (1)	No significant service impact Service disruption up to 1 day	Unlikely to cause adverse publicity	First aid level injuries	Unlikely to cause complaint Breaches of local procedures	Financial loss or overspend under £10k	Environmental incident with no lasting detrimental effect

RISK LIKELIHOOD

Type	Probability	Detail description
Almost certain (5)	90%+	Without action is likely to occur; frequent similar occurrences in local government/Council history
Probable (2)	60%-90%	Strong possibility; similar occurrences known often in local government/Council history
Possible (3)	40%-60%	Might occur; similar occurrences experienced in local government/Council history
Unlikely (2)	10%-40%	Not expected; rare but not unheard of occurrence in local government/Council history
Rare (1)	0%-10%	Very unlikely to occur; no recent similar instances in local government/Council history

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE	16 January 2017
Is the final decision on the recommendations in this report to be made at this meeting?	**No**

Treasury Management Strategy 2017/18

Final Decision-Maker	Council
Lead Director	Mark Green, Director of Finance & Business Improvement
Lead Officer and Report Author	John Owen, Finance Manager Ellie Dunnet, Chief Accountant
Classification	Public
Wards affected	None

This report makes the following recommendations to this Committee:

1. That the Audit, Governance and Standards Committee recommends the adoption of the Treasury Management Strategy for 2017/18 attached at **Appendix A** to this report, subject to potential amendments arising following the approval of the capital programme for 2017/18 onwards by the Policy & Resources Committee on 18 January 2017.

This report relates to the following corporate priorities:

The Treasury Management Strategy impacts upon all corporate priorities through the resource it provides from the investment of the council's balances and the security and control it provides for decisions on borrowing and investment. These resources are incorporated in the council's budget

Timetable

Meeting	***Date***
Audit, Governance and Standards Committee	16 Jan 2017
Council	1 March 2017

Treasury Management Strategy 2017/18

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1 This report sets out the Draft Treasury Management Strategy for 2017/18 for consideration by the Audit, Governance & Standards Committee and subsequently, recommendation to Council for adoption. The strategy statement and associated documents are attached at appendices A-C to this report.

1.2 The Council has adopted CIPFA's Code on Treasury management (the Code) which requires an annual report on the strategy and plan to be pursued within the coming year to be made to full Council. This report considers the proposed strategy for 2017/18 onwards along with current guidance from CIPFA and the Department for Communities and Local Government (DCLG).

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2. INTRODUCTION AND BACKGROUND

2.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. The Treasury Management Strategy assists the Council in achieving this objective while maintaining value for money.

2.2 The first function of the Council's treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

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

2.4 The council has adopted the Treasury Management in Public Services: Code of Practice 2011 Edition ('the Code') issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). CIPFA defines treasury management 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."

2.5 There have not been any significant revisions to the strategy for 2017/18 from the 2016/17 strategy, which was reviewed by this Committee and agreed by Council in March 2016 then monitored by his Committee mid-year. However, the following changes should be noted:

- The maximum principal sums to be invested for a period exceeding 364 days has been reduced to £5m from £8m. This is consistent with the borrowing strategy to utilise cash balances rather than loan debt to finance the capital programme in the short term, due to low investment returns and high counterparty risk in the current economic climate;

- The council will endeavour to further diversify its portfolio, as far as is operationally feasible, ensuring that a combination of secured and unsecured investments are considered;

- Changes to the capital financing requirement are proposed in light of updated capital plans. The proposed limit on prudential borrowing has been revised accordingly, as set out in paragraph 2.9;

- The expected level of interest income to be generated through investment returns has been revised downwards in light of the current economic outlook and interest rate forecasts.

2.6 The strategy statement is set out at **Appendix A** to this report. It is consistent with the requirements of the CIPFA and DCLG. It has been developed in line with currently approved spending and financing proposals.

2.7 **Appendix B** details the proposed list of investment counterparties based on current ratings against the selection criteria set out in the strategy.

2.8 The Policy & Resources Committee will consider a capital programme for the period 2017/18 to 2021/22 at its meeting on 18th January 2017. This programme proposes a significant increase in prudential borrowing to support the housing development and regeneration objectives of the Council. Should any changes to this programme be agreed at this meeting then the prudential borrowing limits set out in the attached strategy will require amendment before consideration by Council.

2.9 The following table shows the maximum and expected prudential borrowing required to fund the draft capital programme. The maximum borrowing limit excludes any internal borrowing:

	2017/18 £	**2018/19 £**	**2019/20 £**
Capital Programme	27,903,420	19,551,000	19,139,000
Other Funding Streams (incl. New Homes Bonus)	(11,216,000)	(3,059,000)	(2,935,000)
Maximum Prudential Borrowing	16,687,420	16,492,000	16,204,000
Estimated Internal Borrowing	(3,200,000)	0	0
Expected Borrowing	13,487,420	16,492,000	16,204,000

2.10 The prudential indicators for the proposed strategy are set out within **Appendix C** to this report.

3. AVAILABLE OPTIONS

3.1 **Option 1:** The Committee could decide not to recommend the strategy to Council. The Council must adopt a strategy for 2017/18 and should the Committee decide not to recommend the attached strategy it would need to recommend an alternative to Council. The strategy is in line with the necessary codes and practice guides and takes a low risk approach favouring liquidity over return and as such is considered suitable for this Council.

3.2 **Option 2:** Subject to any legal obligations placed upon the Council, the Committee could amend the strategy prior to recommendation to Council. The Committee would need to provide Council with detailed reasons for the amendment and the risks and benefits that the proposed amendment provides in order for the Council to make a fully informed decision on the recommendation. Areas where amendments could be made include the following, which are detailed along with current reasons for not changing the current strategy.

3.2.1 Limits: the proposed strategy allows maximum investments with certain institutions of £8m. The current limit could be retained, increased or reduced. Given the difficulty in identifying opportunities to lend at suitable rates within the counterparty list, it is considered appropriate to incorporate sufficient flexibility by retaining the current limit for investments with the most secure organisations.

3.2.2 Counterparties: the proposed strategy allows non-specified investments with other local authorities and the rated/unrated building societies that are within Arlingclose's suggested counterparty list. The strategy could propose to utilise additional counterparties from the non-specified investments group. However, due to the fact that this would involve an increased level of risk to the security of the council's cash, this is not considered to represent a prudent course of action.

3.2.3 Alternative use of cash: the resources invested in expenditure could be utilised to deliver key priority outcomes. However the core cash held by the Council is either set aside for future expenditure, such as the capital programme, or held as a form of risk mitigation, such as the minimum level of revenue balances. To utilise these resources for alternative projects could compromise liquidity and put the Council at future risk should an unforeseen event occur.

3.2.4 External Fund Managers: by appointing external managers local authorities may possibly benefit from security of investments, diversification of investment instruments, liquidity management and the potential of enhanced returns. Managers do operate within the parameters set by local authorities but this involves varying degrees of risk. This option has been discounted on the basis of the risk which would make it difficult to ascertain a suitable sum to assign to an external manager.

3.3 **Option 3:** The Committee could agree the attached strategy and recommend it to Council. The attached strategy has been produced in line with current guidance from CIPFA and the Department for Communities and Local Government (DCLG) and has been reviewed by the Council's Treasury Management Advisors and their recommended amendments have been taken into account.

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4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 The recommended option is Option 3, to recommend to Council the strategy set out in Appendix A. In agreeing this option the committee should note the potential change in the level of prudential borrowing if there are any changes to the council's proposed capital spending plans.

4.2 As stated above, the proposed strategy has been produced in line with current guidance from CIPFA and the Department for Communities and Local Government (DCLG).

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5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

5.1 No specific consultation has been undertaken in relation to this strategy, however this forms part of the council's medium term financial strategy for 2017/18 for which detailed consultation has been undertaken.

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6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

6.1 The final decision on the strategy will be made by Council on 1 March 2017 when it considers the 2017/18 budget and strategic plan update. All three strategies are interlinked and the Council meeting will be able to consider the cross-strategy implications of each decision.

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7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	The Treasury Management Strategy impacts upon all corporate priorities through the resource it provides from the investment of the council's balances and the security and control it provides for decisions on borrowing and investment. These resources are incorporated in the council's budget.	Director of Finance and Business Improvement
Risk Management	Risk Management is included	Director of

	within the Treasury Management Practices which the council adheres to. The main risks to the council are counterparty risk, liquidity risk and interest rate risk which are closely monitored on a regular basis using the council's treasury advisors and other market intelligence. If there is a possibility of a negative risk, the appropriate action is taken immediately through delegated authority.	Finance and Business Improvement
Financial	Financial implications are covered within the strategy itself.	Director of Finance and Business Improvement
Staffing	None identified.	Director of Finance and Business Improvement
Legal	Legal implications are set out in the body of the strategy.	Director of Finance and Business Improvement
Equality Impact Needs Assessment	None identified.	Director of Finance and Business Improvement
Environmental/Sustainable Development	None identified.	Director of Finance and Business Improvement
Community Safety	None identified.	Director of Finance and Business Improvement
Human Rights Act	None identified.	Director of Finance and Business Improvement
Procurement	None identified.	Director of Finance and Business Improvement
Asset Management	None identified.	Director of Finance and

		Business Improvement

8. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

- Appendix A: Treasury Management Strategy Statement
- Appendix B: Proposed List of Investment Counterparties
- Appendix C: Prudential Indicators

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9. BACKGROUND PAPERS

None

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

Maidstone Borough Council
2017/18

INDEX

1 INTRODUCTION

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management service is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

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

The council has adopted the *Treasury Management in Public Services: Code of Practice 2011 Edition* ('the Code') issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). CIPFA defines treasury management 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."*

1.2 Reporting requirements

The Council is required to receive and approve the Treasury Management Strategy, which incorporates a variety of policies, estimates and actuals.

Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

The following reports are not required to be approved by Council but are to be reported and scrutinised to the relevant Committee. The Council has delegated this function to the Audit, Governance and Standards Committee.

A mid year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and determining whether any policies require revision if the assumptions on which this strategy is based were to change significantly.

In accordance guidance issued by CLG, the circumstances which may require the council to revise its strategy would include, for example, a large unexpected change in interest rates, or in the council's capital programme or in the level of its investment balance.

An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

A quarterly update on the Council's treasury management position is also provided through budget monitoring reports presented to Policy & Resources Committee.

1.3 Treasury Management Strategy for 2017/18

The strategy for 2017/18 covers two main areas:

Capital issues
- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- the investment strategy; and
- creditworthiness policy.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG Minimum Revenue Provision Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

1.4 Treasury management consultants

The Council uses Arlingclose Limited as its external treasury management advisors.

Responsibility for treasury management decisions ultimately remains within the organisation and officers will not place undue reliance on the advice of external service providers.

The terms of appointment and value gained through use of treasury management consultants will be subject to regular review by the Director of Finance and Business Improvement.

1.5 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. A treasury management training session is planned for

January 2017. This will be delivered by Arlingclose and will be open for all members to attend.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications delivered by CIPFA, the Association of Corporate Treasurers and other appropriate organisations.
Staff training needs are assessed regularly both as part of the appraisal process and when the responsibilities of individual members of staff change.

2 THE CAPITAL PRUDENTIAL INDICATORS AND MINIMUM REVENUE PROVISION

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.1 Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans; those agreed previously, as well as those forming part of this budget cycle. Capital expenditure forecasts are shown below:

2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000
15,200	27,903	19,551	19,139	18,415

2.2 The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

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

The CFR includes the liability for the arrangement with Serco Paisa for leisure centre improvements. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes.

CFR projections are shown in the table below:

2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
(8,023)	14,864	31,356	47,560	65,673

2.3 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

2016/17 %	2017/18 %	2018/19 %	2019/20 %	2020/21 %
(1.1)	0.4	2.2	4.5	6.9

2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
(220)	83	420	817	1,304

The estimates of financing costs include current commitments and the proposals in this budget report.

2.4 Incremental impact of capital investment decisions on council tax

This indicator identifies the revenue costs associated with proposed changes to the five year capital programme recommended in this budget cycle compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of government support.

Incremental impact of capital investment decisions on the band D council tax

	2016/17 £	2017/18 £	2018/19 £	2019/20 £	2020/21 £
Council tax - band D	(0.31)	0.83	0.69	2.23	2.73

2.5 Minimum Revenue Provision

Where spend is financed through the creation of debt, the Council is required to pay off an element of the accumulated capital spend each year. The total debt is identified as the capital financing reserve and ensures that the Council includes external and internal borrowing along with other forms of financing considered to be equivalent to borrowing.

The payment is made through a revenue charge (the minimum revenue provision - MRP) made against the Council's expenditure.

Although the Council has maintained a capital financing reserve based upon the prudential borrowing limit previously set, the MRP was based upon the actual payments made under the Serco Paisa arrangements for the capital works completed by Serco at Maidstone Leisure Centre. Debt repayment is made by annual installments over the 15 year life of the contract and it is therefore considered appropriate to base MRP payments on this value and no additional voluntary provision is deemed necessary.

With the real potential for the use of prudential borrowing it is felt appropriate that a policy statement is approved by Council in line with the requirements of the Code. The Code states that there is a choice between two options, or a combination of methods based on the nature of different arrangements:

> Asset life method – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction);
>
> Depreciation method – MRP will follow standard depreciation accounting procedures.

Due to the requirement to split assets into component parts and depreciate different components at different rates, the asset life method of calculating MRP would provide a more stable and transparent method for the Council to use.

3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Treasury Indicators: limits to borrowing activity

The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Operational boundary	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Debt	0	16,687	33,179	49,383
Other long term liabilities	4,514	4,033	3,526	3,005
Total	4,514	20,720	36,705	52,388

The authorised limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
2. The Council is asked to approve the following authorised limit:

Authorised limit	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Debt	4,000	20,687	37,179	53,383
Other long term liabilities	4,514	4,033	3,526	3,005
Total	8,514	24,720	40,705	56,388

3.2 Prospects for interest rates

The Council's advisors, Arlingclose Ltd, have provided the following interest rate forecast:

	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**
50-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	**1.60**	**1.40**	**1.30**	**1.30**	**1.30**	**1.30**	**1.30**	**1.35**	**1.40**	**1.45**	**1.50**	**1.55**	**1.60**	**1.41**
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**

Forecast:

- 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.
- Arlingclose forecasts that the UK Bank Rate will remain at 0.25% for the foreseeable future, although there is a small possibility that this could reduce to zero and a very small chance of a reduction below zero. Risks remain weighted to the downside.

§ Gilt yields have risen, but remain at low levels. The current forecast from Arlingclose anticipates a decline in yields when the government triggers Article 50.

3.3 Borrowing strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has been funded using cash supporting the Council's reserves, balances and cash flow as a temporary measure, rather than through loan debt. This strategy is prudent as currently investment returns are low and counterparty risk is relatively high and will be retained for the forthcoming financial year on the assumption that this situation is unlikely to change in the short term. However, if short term cash requirements cannot be met from balances in hand for day to day purposes, the Council has access to a range of sources of short term borrowing options, which includes other local authorities

The Authorised Limit to borrow up to £24.887m for the financing of capital expenditure and day to day cash flow liquidity within 2017/18 is included in the current capital programme and the current prudential indicators. The 2017/18 strategy includes the continuation of that authority within the calculation of the indicators. If the Council is to borrow then the affordability of the capital programme must include an assessment of the cost of borrowing along with the loss of investment income from the use of capital resources held in cash.

Should rates move more quickly than the forecast predicts, the current and proposed strategies do allow the section 151 officer to take advantage of external borrowing. The Council's policy on borrowing in advance of need is set out at section 3.4 of this strategy.

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

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
- UK public and private sector pension funds (except the Kent County Council Pension Fund)

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

3.4 Policy on borrowing in advance of need

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

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

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £18 and £40 million.

Objectives: 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.

Strategy: Given the increasing risk and continued low returns from short-term unsecured bank investments, the council aims to further diversify into more secure and/or higher yielding asset classes during 2017/18. This is especially the case for the proposed £5m that is estimated to be available for longer-term investment. The majority of council's surplus cash is currently invested in short-term unsecured bank deposits, certificates of deposit, money market funds and cash enhanced funds. This diversification will represent a continuation of the new strategy adopted in 2016/17.

Approved Counterparties: The Authority may invest its surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty) and the time limits shown. Additional detail regarding the different types of counterparty is provided below the table.

<u>Approved Investment Counterparties and Limits</u>

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£3m 5 years	£5m 20 years	£5m 50 years	£3m 20 years	£3m 20 years
AA+	£3m 5 years	£5m 10 years	£5m 25 years	£3m 10 years	£3m 10 years
AA	£3m 4 years	£5m 5 years	£5m 15 years	£3m 5 years	£3m 10 years
AA-	£3m 13 months	£5m 4 years	£5m 10 years	£3m 4 years	£3m 10 years
A+	£3m 13 months	£5m 3 years	£3m 5 years	£3m 3 years	£3m 5 years
A	£3m 13 months	£5m 2 years	£5m 5 years	£3m 2 years	£3m 5 years
A-	£3m 6 months	£5m 13 months	£5m 5 years	£3m 13 months	£3m 5 years

BBB+	£2m 35 days	£3m 6 months	£2m 2 years	£2m 6 months	£3m 2 years
None	£1m 100 days	n/a	£5m 25 years	£50,000 5 years	£3m 5 years
Pooled funds	£8m per fund				

The time limits set out above are consistent with the recommended durations provided by the council's treasury management advisors, Arlingclose. The cash limits have been set with reference to this guidance, although the upper limit in certain categories of investment exceeds the limit proposed by Arlingclose in order to meet the operational requirements of the council. The limits adopted within the strategy remain prudent and consistent with ensuring the security of capital and appropriate levels of liquidity.

Credit Rating: Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

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, Tri Party Repos, 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. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. 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 the 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. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility 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.

The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:

Specified Investments: The 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 Council defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

Non-specified Investments: Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority 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 the table below.

<u>Non-Specified Investment Limits</u>

	Cash limit
Total long-term investments	£5m
Total investments without credit ratings or rated below A-	£5m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below AA+	£5m
Total non-specified investments	£15m

The council will maintain a counterparty list to identify institutions suitable for investment. The counterparty list will be maintained using the following principles:

Risk Assessment and Credit Ratings: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other Information on the Security of Investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Investment Limits: In order that available reserves will not 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) will be £8 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

	Cash limit
Any single organisation, except the UK Central Government	£5m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£5m per group
Any group of pooled funds under the same management	£8m per manager
Negotiable instruments held in a broker's nominee account	£5m per broker
Foreign countries	£5m per country
Registered Providers	£5m in total
Unsecured investments with Building Societies	£3m each
Loans to unrated corporates	£50,000 each
Money Market Funds	£8m each fund or fund group

Liquidity Management: The council uses a cash flow forecasting spreadsheet to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the council's medium term financial plan and cash flow forecast.

Accounting treatment of investments.

The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

In-house funds. The majority of investments will be made with reference to the cash flow requirements so invested for short-term interest rates (i.e. rates for investments up to 12 months). However, there is a provision of funds that can be used for longer term investments (greater than 12 months) if it deemed to be prudent by the section 151 officer.

4.2 Investment strategy

Investment treasury indicator and limit - total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limit: -

Maximum principal sums invested > 364 days			
	2017/18 £000	**2018/19 £000**	**2019/20 £000**
Principal sums invested > 364 days	5,000	5,000	5,000

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 amount of net principal borrowed will be:

	2017/18 £000	**2018/19 £000**	**2019/20 £000**
Upper limit on fixed interest rate exposure	(19,113)	(23,313)	(6,821)
Upper limit on variable interest rate exposure	(32,000)	(32,000)	(32,000)

The upper limit on fixed interest rates incorporates expected borrowing of £16.687m within the strategy which reduced the negative investment limit within 2017/18. The upper limit on variable interest rate exposure is calculated as being 80% of the projected highest level of investments during 2017/18.

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%	100%

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

4.3 End of year investment report

4.4 At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report as previously stated within 1.2.**Other Items**

It is a requirement of the Prudential Code of Practice for Treasury Management that authorities have a policy on the 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).
The council 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, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

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.

INVESTMENT COUNTERPARTY LIST

Appendix B

UK Institutions

Banks	Group	Unsecured Investments Duration	Amount	Credit Rating
Bank of Scotland Plc	1	13 months	£3,000,000	A+
Barclays Bank Plc		100 days	£3,000,000	A
Close Brothers Limited		6 months	£3,000,000	A
Goldman Sachs Int Bank		100 days	£3,000,000	A
HSBC Bank Plc		13 months	£3,000,000	AA-
Lloyds Bank Plc	1	13 months	£3,000,000	A+
National Westminster Bank Plc	2	35 days	£2,000,000	BBB+
Royal Bank of Scotland Plc	2	35 days	£2,000,000	BBB+
Santander UK Plc		6 Months	£3,000,000	A

Building Societies	Unsecured Investments Duration	Amount	Credit Rating
Coventry Building Society	6 months	£3,000,000	A
Darlington Building Society	100 days	£1,000,000	Unrated
Furness Building Society	100 days	£1,000,000	Unrated
Hinckley & Rugby Building Society	100 days	£1,000,000	Unrated
Leeds Building Society	100 days	£3,000,000	A-
Leek United Building Society	100 days	£1,000,000	Unrated
Loughborough Building Society	100 days	£1,000,000	Unrated
Mansfield Building Society	100 days	£1,000,000	Unrated
Market Harborough Building Society	100 days	£1,000,000	Unrated
Marsden Building Society	100 days	£1,000,000	Unrated
Melton Mowbray Building Society	100 days	£1,000,000	Unrated
National Counties Building Society	100 days	£1,000,000	Unrated
Nationwide Building Society	6 months	£3,000,000	A
Newbury Building Society	100 days	£1,000,000	Unrated
Scottish Building Society	100 days	£1,000,000	Unrated
Stafford Railway Building Society	100 days	£1,000,000	Unrated
Tipton & Coseley Building Society	100 days	£1,000,000	Unrated

Non-UK Institutions	Country	Unsecured Investments Duration	Amount	Credit Rating
Australia & New Zealand Banking Group	Australia	6 months	£3,000,000	AA-
Bank of Montreal	Canada	13 months	£3,000,000	AA-
Bank of Novia Scotia	Canada	13 months	£3,000,000	AA-
Canadian Imperial Bank of Commerce	Canada	13 months	£3,000,000	AA-
Commonwealth Bank of Australia	Australia	6 months	£3,000,000	AA-
Credit Suisse	Switzerland	100 days	£3,000,000	A
Danske Bank	Denmark	100 days	£3,000,000	A
DBS Bank Ltd	Singapore	13 months	£3,000,000	AA-
ING Bank	Netherlands	100 days	£3,000,000	A+
JP Morgan Chase Bank	United States	13 months	£3,000,000	AA-
Landesbank Hessen-Thuringen (Helaba)	Germany	6 months	£3,000,000	A+
National Australia Bank	Australia	6 months	£3,000,000	AA-
Nordea Bank AB	Sweden	13 months	£3,000,000	AA-
OP Corporate Bank	Finland	6 months	£3,000,000	AA-
Oversea-Chinese Banking Corp	Singapore	13 months	£3,000,000	AA-
Rabobank	Netherlands	13 months	£3,000,000	AA-
Royal Bank of Canada	Canada	13 months	£3,000,000	AA
Svenska Handelsbanken	Sweden	13 months	£3,000,000	AA
Toronto Dominion Bank	Canada	13 months	£3,000,000	AA-
United Overseas Bank	Singapore	13 months	£3,000,000	AA-
Westpac Banking Group	Australia	6 months	£3,000,000	AA-

MONEY MARKET FUNDS (AAA RATED)	Amount	
Goldman Sachs	£8,000,000	AAA
Standard Life	£8,000,000	AAA
Federated	£8,000,000	AAA

CASH ENHANCED FUNDS (AAA RATED)	Amount	
Standard Life	£8,000,000	AAA
Federated	£8,000,000	AAA

Government Stock	Amount	
UK Government	Unlimited	AA

PRUDENTIAL INDICATORS

Ratio of Financing Costs to Net Revenue Stream

2016/17 %	2017/18 %	2018/19 %	2019/20 %	2020/21 %
-1.1	0.4	2.2	4.5	6.9
2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000
-220	83	420	817	1,304

This indicator shows the proportion of the net revenue stream (revenue budget) that is attributable to financing costs of capital expenditure. Negative figures indicates that more investment interest than prudential borrowing interest, positive figures the opposite is true.

Incremental Impact of Capital Investment Decisions on the Council Tax

	2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000
i) Forecast of total budgetary requirement no changes to capital programme	17,633	19,700	13,641	2,314	1,815
ii) Forecast of total budgetary requirement after changes to capital programme	15,200	27,903	19,551	19,139	18,415
iii) Additional Council Tax Required	-0.31	0.83	0.69	2.23	2.73

This indicator identifies the revenue costs associated with proposed changes to the capital programme compared to the Council's existing approved commitments and current plans.

Current Financial Plan

2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000
15,200	27,903	19,551	19,139	18,415

This prudential indicator is a summary of the Council's proposed capital expenditure plans.

Capital Financing Requirement

2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000
-8,023	14,864	31,356	47,560	65,673

This is a measure of the capital expenditure incurred historically by the council that has yet to be financed. It is a measure of the Council's borrowing need to fund the proposed capital programme

TREASURY MANAGEMENT INDICATORS

Authorised Limit for External Debt

	2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000
Borrowing	4,000	20,687	37,179	53,383	71,496
Other Long Term Liabilities	4,514	4,033	3,526	3,005	2,483
Total	8,514	24,720	40,705	56,388	73,979

This limit is the main limit set as a maximum for external borrowing. It fulfils the requirements under section 3 of the Local Government Act 2003.

Operational Boundary

	2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000
Borrowing	0	16,687	33,179	49,383	67,496
Other Long Term Liabilities	4,514	4,033	3,526	3,005	2,483
Total	4,514	20,720	36,705	52,388	69,979

This limit should be the focus of day to day treasury management. It is similar to the Authorised Limit but excludes the allowance for temporary cash flow borrowing as perceived as not necessary on a day to day basis.

Upper Limit for Fixed Interest Rate Exposure

2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000
-40,000	-23,313	-6,821	9,383	27,496

This is the maximum amount of net borrowing and investment that can be at a fixed rate. The upper limit on fixed interest rates incorporates expected borrowing which reduced the negative investment limit.

Upper Limit for Variable Interest Rate Exposure

2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000
-32,000	-32,000	-32,000	-32,000	-32,000

This is the maximum amount of net borrowing and investment that can be at a variable rate. The upper limit on variable interest rate exposure is calculated as being 80% of the projected highest level of investments during 2017/18

Maturity Structure of New Fixed Rate Borrowing taken during 2017/18

	Upper Limit %	Lower Limit %
Under 12 months	0	0
12 months to under 24 months	0	0
24 months to under 5 years	0	0
5 years to under 10 years	0	0
10 years and within 20 years	0	0
20 years and within 30 years	0	0
30 years and within 40 years	0	0
40 years and within 50 years	100	20
50 years and within 60 years	100	100
70 years and within 80 years	100	100

This indicator is set to control the Authority's exposure to refinancing risk. Assumption of 50 year borrowing will be used

Principal Invested for more than 364 Days

2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000
8,000	5,000	5,000	5,000	5,000

The maximum set aside for long term investment has reduced from £8m to £5m due to funds used for internal borrowing to fund capital programme

MAIDSTONE BOROUGH COUNCIL

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

Work Programme

2016/17

Date of Meeting	Title of Report	Contact Officer
11 July 2016	**Annual Governance Statement 2015/16 and Local Code of Corporate Governance**	Angela Woodhouse, Head of Policy and Communications
11 July 2016	**Annual Internal Audit Report and Opinion 2015/16**	Rich Clarke, Head of Audit Partnership
11 July 2016	**Speaking Up Policy (Whistleblowing)**	Rich Clarke, Head of Audit Partnership
11 July 2016	**Treasury Management Annual Review 2015/16**	John Owen, Finance Manager
11 July 2016	**External Audit Update July 2016**	Ellie Dunnet, Chief Accountant
11 July 2016	**External Audit Fee Letter 2016/17**	Ellie Dunnet, Chief Accountant
11 July 2016	**Statement of Accounts 2015/16**	Ellie Dunnet, Chief Accountant
19 September 2016	**Complaints Received Under the Members' Code of Conduct**	John Scarborough, Head of Legal Partnership
19 September 2016	**AGS Committee Annual Report 2015/16**	Rich Clarke, Head of Audit Partnership
19 September 2016	**Whistleblowing Policy**	Rich Clarke, Head of Audit Partnership
19 September 2016	**External Auditor's Audit Findings Report 2015/16 and Statement of Accounts 2015/16**	Ellie Dunnet, Chief Accountant
19 September 2016	**External Audit Procurement**	Mark Green, Director of Finance and Business Improvement
21 November 2016	**Annual Governance Statement Action Plan Update**	Angela Woodhouse, Head of Policy and Communications
21 November 2016	**Mid-Kent Audit Interim Internal Audit Report 2016/17**	Rich Clarke, Head of Audit Partnership

21 November 2016	**Treasury Management Half Yearly Review 2016/17**	John Owen, Finance Manager
21 November 2016	**External Auditor's Annual Audit Letter**	Ellie Dunnet, Chief Accountant
21 November 2016	**External Audit Update November 2016**	Ellie Dunnet, Chief Accountant
16 January 2017	**Treasury Management Strategy 2017/18**	John Owen, Finance Manager
16 January 2017	**Review of Risk Assessment of Budget Strategy 2017/18 Onwards**	Mark Green, Director of Finance and Business Improvement
16 January 2017 **To be included in Review of Risk Assessment of Budget Strategy 2017/18 Onwards**	**Savings Delivered to Date Through Shared Service Arrangements Compared to Targets and Update on Progress being Made on Review of Effectiveness of Shared Services.**	Mark Green, Director of Finance and Business Improvement
16 January 2017 **To be included in Review of Risk Assessment of Budget Strategy 2017/18 Onwards**	**Risks Associated with the Council's Commercialisation Projects**	Mark Green, Director of Finance and Business Improvement
16 January 2017	**Grant Claim Certification**	Liz Norris, Business Support Manager, Revenues and Benefits
16 January 2017	**Complaints Received Under the Members' Code of Conduct**	Donna Price, Interim Deputy Head of Legal Partnership
20 March 2017	**Internal Audit Plan 2017/18**	Rich Clarke, Head of Audit Partnership
20 March 2017	**External Audit Update March 2017**	Ellie Dunnet, Chief Accountant
20 March 2017	**External Auditor's Audit Plan 2016/17**	Ellie Dunnet, Chief Accountant
TBA	**HR Assessment of Benefits of IIP Accreditation**	
TBA	**Periodic Updates on Matters Raised through the Whistleblowing Policy**	Rich Clarke, Head of Audit Partnership
TBA	**Contract/Project Management, Monitoring and Reporting**	Rich Clarke, Head of Audit Partnership