

Borough Council of  
**King's Lynn &  
West Norfolk**



# **Audit and Risk Committee**

## **Agenda**

**Tuesday, 27th October, 2015**  
at 5.30 pm

in the

**Committee Suite  
King's Court  
Chapel Street  
King's Lynn  
PE30 1EX**



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**King's Court, Chapel Street, King's Lynn, Norfolk, PE30 1EX**  
**Telephone: 01553 616200**  
**Fax: 01553 691663**

16 October 2015

Dear Member

**Audit and Risk Committee**

You are invited to attend a meeting of the above-mentioned Committee which will be held on **Tuesday, 27th October, 2015 at 5.30 pm** in the **Committee Suite, King's Court, Chapel Street, King's Lynn** to discuss the business shown below.

Yours sincerely

Chief Executive

**AGENDA**

**1. Apologies**

To receive any apologies for absence.

**2. Minutes**

To approve the minutes from the Audit and Risk Committees held on 21 July and 7 September 2015 (previously circulated).

**3. Declarations of Interest**

Please indicate if there are any interests which should be declared. A declaration of an interest should indicate the nature of the interest (if not already declared on the Register of Interests) and the agenda item to which it relates. If a disclosable pecuniary interest is declared, the Member should withdraw from the room whilst the matter is discussed.

These declarations apply to all Members present, whether the Member is part of the meeting, attending to speak as a local Member on any item or simply observing the meeting from the public seating area.

**4. Urgent Business Under Standing Order 7**

To consider any business which, by reason of special circumstances, the Chairman proposed to accept as urgent under Section 100(b)(4)(b) of the Local Government Act 1972.

**5. Members Present Pursuant to Standing Order 34**

Members wishing to speak pursuant to Standing Order 34 should inform the Chairman of their intention to do so and on what items they wish to be heard before the meeting commences. Any Member attending the meeting under Standing Order 34 will only be permitted to speak on those items which have been previously notified to the Chairman.

**6. Chairman's Correspondence (if any)**

**7. Matters Referred to the Committee from other Council Bodies and Responses made to previous Committee Recommendations/Requests**

To receive comments and recommendations from other Council bodies, and any responses subsequent to recommendations, which the Committee has previously made. (N.B. some of the relevant Council bodies may meet after dispatch of the agenda).

At the Cabinet meetings held on 28 July and 9 September 2015 the following responses were made to the recommendations from the Audit and Risk Committee meetings held 21 July and 7 September 2015, on the following items:-

**21 JULY 2015**

**Cabinet Report: Annual Treasury Report 2014/2015**

**RESOLVED:** The Committee supported the recommendation to Cabinet as follows:

Cabinet is asked to approve the actual 2014/2015 prudential and treasury indicators in the report, and to note the report.

**CABINET RESPONSE:** The comments of the Committee were taken into consideration when Cabinet considered the item.

**Cabinet Report: Review and Update of Contract Standing Orders**

**RESOLVED:** The Committee supported the recommendation to Cabinet as follows:

Details of the main changes are provided in the body of the report. It is recommended that Cabinet accept the new version of Contract Standing Orders and that they recommend acceptance by Full Council.

**CABINET RESPONSE:** The comments of the Committee were taken into

consideration when Cabinet considered the item.

## **7 SEPTEMBER 2015**

### **Cabinet Report: Accounts and ISA 2014/2015**

**RESOLVED:** That the Committee support the recommendations to Cabinet and Council as set out below, with the following comment:

The Audit Committee approve management's rationale as to why the corrections had not been made and to be included in the Letter of Representation.

It is recommended that Cabinet:

- 1) Approve the authority for any changes required to the Statement of Accounts is delegated to the Assistant Director (designate Section 151 Officer), in consultation with the Leader of the Council, to authorise amendments and if necessary present an updated Statement to Council.
- 2) Notes the comments of the Auditor in the ISA260.

It is recommended that Council:

- 1) Approve the Statement of Accounts for 2014/2015.
- 2) Notes the comments of the Auditor in the ISA260

**CABINET RESPONSE:** The comments of the Committee were taken into consideration when Cabinet considered the item.

### **Cabinet Report: Annual Governance Statement**

**RESOLVED:** That the Committee support the recommendation to Cabinet as follows:

It is recommended that the Annual Governance Statement for the 2014/2015 year as attached be approved for adoption and that the Leader of the Council and the Chief Executive sign accordingly.

**CABINET RESPONSE:** The comments of the Committee were taken into consideration when Cabinet considered the item.

### **Cabinet Report: Business Continuity Management Policy Statement and Strategy**

**RESOLVED:** That the Committee support the recommendations to Cabinet as follows:

- 1) Cabinet accept the new version of the Business Continuity Policy Statement

and Strategy, attached, and that they recommend full acceptance by full Council.

- 2) Delegated authority be granted to the Chief Executive, in consultation with the Leader, as Portfolio Holder for Business Continuity, to make further minor changes if deemed necessary.

**CABINET RESPONSE:** The comments of the Committee were taken into consideration when Cabinet considered the item.

**8. Briefing/Training Session on the Role of the Audit and Risk Committee**

All Members have been invited to attend for this item.

**9. Internal Audit Plan 2015/16 and Fraud Work - Half Year Progress Report April to October 2015 (Pages 8 - 19)**

Members are invited to note the report for April to October 2015.

**10. Corporate Risk Monitoring Report October 2015 (Pages 20 - 27)**

Members are invited to note the report.

**11. Cabinet Report: Mid Year Treasury Report (Pages 28 - 44)**

The Committee is invited to consider the report and make any appropriate recommendations to Cabinet.

**12. Committee Work Programme 2015/2016 and Forward Decisions List (Pages 45 - 48)**

To consider the Committee's Work Programme for 2015/2016 and note the Forward Decisions List.

**13. Date of Next Meeting**

To note that the next meeting of the Audit and Risk Committee will take place on **Tuesday 24 November 2015** in the Committee Suite, King's Court, Chapel Street, King's Lynn.

To:

**Audit and Risk Committee:** B Anota, J Collop, I Devereux, I Gourlay, G Hipperson (Vice-Chairman), P Hodson, H Humphrey (Chairman), G Middleton, A Morrison, D Tyler and G Wareham

**Portfolio Holder:**

Councillor N Daubney, Leader

**Management Team Representatives:**

R Harding, Chief Executive  
L Gore, Assistant Director

**Appropriate Officers:** The following officers are invited to attend in respect of the Agenda Item shown against their name:

Item 8: K Littlewood, Audit Manager  
Item 9: K Littlewood, Audit Manager  
Item 10: K Littlewood, Audit Manager  
Item 11: T Cowper, Group Accountant

**Executive Directors:**

C Bamfield  
D Gates  
G Hall

**Press**

## AUDIT AND RISK COMMITTEE REPORT

<b>TYPE OF REPORT:</b> Audit	<b>Portfolio:</b> Performance
<b>Author Name:</b> Kate Littlewood	<b>CONSULTATIONS:</b>
<b>Tel.:</b> 01553 616252	
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<b>OPEN</b>	

**Committee:** Resources and Performance – Audit & Risk Committee  
**Date:** 27<sup>th</sup> October 2015  
**Subject:** Internal Audit Plan 2015/16 and Fraud work –Half Year progress report April to October 2015.

<b>Summary</b>	This report shows the Internal Audit activity against the Strategic Audit Plan 2015/16 and fraud work for April to October 2015
<b>Recommendation</b>	Members are asked to note the report for April to October 2015.

### 1.0 Introduction and Background

1.1 The Strategic Audit Plan 2015/16, endorsed by the Audit and Risk Committee on 23<sup>rd</sup> June 2015, sets out the work Internal Audit expect to carry out during the year. This work complies with the requirement under section 3 of the Accounts and Audit Regulations 2015<sup>1</sup> for the Council to

*‘ensure that it has a sound system of internal control which:*

- a) Facilitates the effective exercise of its functions and the achievement of its aims and objectives*
- b) Ensures that the financial and operational management of the authority is effective.’*

1.2 Performance Standard 2060 of the Public Sector Internal Audit Standards (PSIAS) requires the Audit Manager to report to the Audit and Risk Committee on the internal audit activity and performance relative to this plan.

1. In exercise of powers conferred under the Local Audit and Accountability Act 2014



## 2.0 Audit work for April to October 2015.

2.1 On completion of each audit a formal report is initially issued to the relevant line managers and the Executive Director for the service concerned. After two weeks copies are also sent to the Chief Executive, Portfolio Holder, Assistant Director (s151 Officer) and the external auditors, Ernst and Young. The report contains an action plan, with target dates, that has been agreed with the managers to address the observations and recommendations raised by Internal Audit. This forms the basis of the follow-up audit, which is carried out approximately six months later to assess progress in implementing the agreed actions.

## 2.2 Reports issued during the quarter

The following audits have been completed and reports issued as described above:

- Public Open Space – Street Cleansing
- Public Open Space – Allotments
- General Ledger and Budgetary Control (2014/15)
- Resort Services
- Leisure Trust
- Council Tax (2014/15)
- Creditors and Payments (2014/15)
- Payroll (2014/15)
- Annual Governance Statement Review
- Performance and Appraisal
- Non-Domestic Rates and Business Rate Retention Scheme (2014/15)
- Care and Repair follow-up

A summary of the reports is attached as **Appendix 1** and the full versions are available under the relevant year to members of the Audit & Risk Committee on InSite.

## 2.3 Work ongoing

The following audits were ongoing at the time of writing the report and will be reported to the Committee in the next progress report:

- Recruitment
- Civil enforcement and car parking
- Civic expenses and administration
- Accounts receivable
- Payroll
- Treasury and Cashflow Management
- CCTV
- VAT healthcheck
- Data Protection, Freedom of Information and Environmental Information Regulations

## 2.4 Other work carried out

Apart from the standard audits, Internal Audit also undertook other work including the following:

- Water Management Alliance audit
- Checks on the Cost of Living and Performance Related Pay calculation spreadsheets
- Review of Statement of Accounts working papers
- Update of the Corporate Risk Register
- Alive Leisure have requested an audit of their Data Protection arrangement
- Attendance at the meetings of some project groups
- Review of Safeguarding Children arrangements when contracting with third parties

## 2.5 Changes to the Audit Plan

As the workplan for the Core audits has moved from an end of year audit to continuous monitoring throughout the year, the work carried over from 2014/15 on Accounts Receivable and Treasury & Cashflow Management has been incorporated into the 2015/16 reporting schedule. Reports on all the Core audits will take place at the end of year unless a critical weakness is identified that needs to be brought to the attention of the Committee.

## 3.0 **Performance Indicators**

### 3.1 Delivery of the Audit Plan

A target of 95% has been set to take in to account any work that may overlap at year end and also to allow for any additional work that may arise during the year. The table below summarises the position against the planned audits contained in the Audit Plan 2015/16.

<b>2015/16 Status of Audits</b>	<b>Audit days used</b>	<b>Percentage of Plan (in days)</b>
Completed and reported	71	17%
In Progress	111	27%
Planned for future quarters	229	56%
<b>Total Planned Audits</b>	<b>411</b>	<b>100%</b>

During the first half of 2015/16 we have completed audits from last year's plan and this time is not reflected in the table above, which deals only with time allocated in the 2015/16 plan.

### 3.2 Planned audit time

A target of 60% has been set for the full year and for the year to date it has been 60%. This refers to the proportion of the total available time that is

spent on planned audit work rather than management, training, general administration and holidays.

#### 4.0 Work planned for November 2015 to March 2016.

4.1 As well as completing the ongoing work listed in paragraph 2.3, including the project reviews, the following audits are planned for the second half of 2015/16:

<b>Audit Title</b>	<b>Days</b>
Policies	15
ICT Disaster Recovery	15
Accounts Receivable (quarterly testing)	7
Creditors and Payments (quarterly testing)	15
Council Tax and Business rates (quarterly testing)	10
General Ledger and Budgetary Control (quarterly testing)	15
Housing Benefits (quarterly testing)	10
Payroll including Members' expenses (quarterly testing)	10
Treasury and Cashflow Management (quarterly testing)	7
S106 funds/ CIL	15
Business Continuity	15
Housing Options and allocations	15
Leisure Trust	15
Contracts	15
Communications	10
Transparency agenda	10
Careline Community Services	15
Asset Register and Inventories	15
<b>Total</b>	<b>229</b>

#### 5.0 Investigation work April to October 2015

##### 5.1 NFI update

There are currently 2 NFI reporting sites being completed:

- The Flexible Matching Service site
- The NFI 2014/15 Site

There are 2,234 matches within the "Flexible Matching Service Site" of which 2,153 have now been processed. These matches mainly consist of Council Tax Single Person Discount (SPD) review matches, the outstanding matches are for rising 18 year olds held on electoral roll information. Some matches refer to details where the second adult is due to turn 18 between now and the end of the financial year. All recommended (these are completed on a high priority basis) matches have now been completed. Due to a recent Datatank SPD Review being completed on 4,305 Council Tax Accounts, which resulted in 855 cancelled SPD awards, some of the information within these matches has been duplicated and so we are only completing certain matches within the report.

There are 1,929 matches within the “NFI 2014/15 Site” of which 1,221 have now been processed. These matches are spread over 46 different reports, covering Housing Benefit and Creditor matches. There are currently 11 reports that still require processing, mainly Creditor matches (**Appendix 2**). All ‘Recommended’ (these are completed on a high priority basis) matches have now been completed.

In total there were 4,163 matches received, 3,374 have now been processed and 789 are waiting to be processed.

## 5.2 Tenancy fraud

The Investigator commenced his position within the team on 01 April 2015. To date work has been carried out to produce an investigation manual to provide guidance, support and assistance within all types of criminal investigations including Tenancy Fraud, which is a new area of investigation for the Council.

We are conducting 1 investigation with Circle Housing Wherry currently and progressing the investigation to establish whether there are grounds to instigate criminal proceedings. Training has been arranged for the team along with officers from the Housing Team which will be conducted in October 2015.

The Law states that Local Authorities have been given the authority to conduct Social Housing Fraud investigations on behalf of Social Housing providers. Research is being carried out to identify prospective clients and work is also being carried out with regards to costing investigations for contractual agreement purposes. Services will then be offered and this should generate further cases for investigation. Alongside Housing Associations, some neighbouring Local Authorities have also been identified who hold Housing stock and have not retained staff with investigative skills and experience.

## 5.3 Council Tax Reduction Scheme

Due to the transfer of Housing Benefit Investigations to the Department for Work and Pensions (DWP) with effect from 1 April 2015, a new referral procedure has been produced because some types of Council Tax Reduction Scheme investigations will be affected by the actions of the DWP. The Investigator has held briefing sessions with the Benefit Assessment staff and also the Benefit Advice and Review Team, in order to relay the new procedures and also provide further information about what types of allegations need to be referred. The DWP send through forms known as Local Authority Exchange of Information Forms (LAEIF), these are to be checked by the Investigator to identify any cases that require Council Tax Support Investigations to be conducted.

#### 5.4 Identified Fraud and Error figures

The following figures reflect the fraud and error identified following investigations being carried out for the period 1 April 2015 to 30 September 2015:

Housing Benefit (inc Discretionary Housing Payments) & Council Tax Benefit	<b>£33,096.10*</b>
Council Tax Reduction Scheme	<b>£4,094.19*</b>
Council Tax	<b>£1,941.88</b>
National Non-Domestic Rates	<b>£46,060.00</b>
Duplicate Creditor Invoice	<b>£28,543.00</b>
<b>Total fraud and error identified</b>	<b>£113,735.17</b>

*\*Some of the fraud and error identified for Housing Benefit (including Discretionary Housing Payments) & Council Tax Benefit along with Council Tax Reduction Scheme hold fraud and error figures identified from investigations which commenced prior to the Investigation Team transferring to the DWP, but the claims were not amended until after 1 April 2015.*

#### **6.0 Conclusion**

- 6.1 Progress to date has been satisfactory and at this point nothing has arisen to suggest that the plan will not be completed within the year. If anything does arise that will impact on the completion of the plan, the Committee will be informed at the next available meeting.
- 6.2 This report provides Members with an overview of the audit activity and outcomes over the period, and provides an opportunity for Members to seek further information if required.

## Notes to support the summary in Appendix 1

The following tables provide an explanation of the terms used to grade the recommendations contained in the final audit reports, and the overall opinion attributed as the result of each audit.

### Recommendations

The observations and recommendations are allocated a grading High, Medium or Low as defined below:

High	Major risk requiring action by the time the final report is issued.
Medium	Medium risk requiring action within six months of the issue of the draft report.
Low	Matters of limited risk. Action should be taken as resources permit.

Please note - 'Low' recommendations are not summarised in this report due to the insignificant nature of the issue.

### Audit Opinion

At the conclusion of the audit an overall audit opinion is formed for the audit area. The definition for each level of assurance is given below.

Full Assurance	A sound system of internal control that is likely to achieve the system objectives, and which is operating effectively in practice.
Substantial Assurance	A sound system of internal control, but there are a few weaknesses that could put achievement of system objectives at risk.
Limited Assurance	A system of internal control with a number of weaknesses likely to undermine achievement of system objectives, and which is vulnerable to abuse or error.
No Assurance	A fundamentally flawed system of internal control that is unlikely to achieve system objectives and is vulnerable to serious abuse or error.

Audits completed in the first half of 2015/16	Overall Opinion
<p><u>Public Open Space – Street Cleansing</u> Report published in March 2015.</p> <p>The recommendations made included 1 ‘High’, 4 ‘Medium’ and 1 ‘Low’. The ‘High’ recommendation was to maintain a record of referrals to “Peaceful Pets” (for the removal and disposal of dead animals of public land) to verify the invoices before payment. The ‘Medium’ recommendations related to management of staff warnings; clarifying the Driving at Work procedures; reconciliation of Dogotel invoices before payment; and maintaining training records.</p>	Substantial Assurance
<p><u>Public Open Space – Allotments</u> Report published in April 2015</p> <p>The report contained 5 ‘High’ recommendations and 14 ‘Medium’ recommendations. Responsibility for managing the Allotments has recently transferred to the Public Open Space (POS) team and staff had already recognised that a lot of issues required attention. As a result the audit became more of a consultancy role and the auditor worked with staff to identify practical solutions.</p> <p>The High recommendations are:</p> <ol style="list-style-type: none"> <li>1) An allotments strategy should be developed to give strategic direction and set measures for evaluation of benefits arising from the allotment service.</li> <li>2) Undertake and document a risk assessment of each of the allotment sites.</li> <li>3) Consider “amnesty days” and make staff, equipment and vehicles available to assist with removal of rubbish and hazardous materials.</li> <li>4) Consider ways in which access to allotment gardening for disabled people could be enhanced.</li> <li>5) Pursue the Winfarthing Avenue allotment association to complete the process of renewing the lease.</li> </ol> <p>The ‘Medium’ recommendations include creation of a formal waiting list; procedure notes; rents policy; generic tenancy agreements; Allotments Rule Book; update tenants’ contact information; structured inspection regime; livestock register; permission required for structures to be erected; effective formal relations with Allotment Associations; seek grant funding for improvements; and transfer management of garden plots to POS.</p>	No Assurance

Audits completed in the first half of 2015/16	Overall Opinion
<p>The report was discussed at Management Team and the action plan endorsed.</p> <p>Due to the complexity of some of the solutions, a longer timescale has been allowed in the Action Plan, but a review of progress to date has been completed and is encouraging, with most recommendations being implemented. A further follow-up will be arranged for six months' time to ensure the good progress is being maintained.</p>	
<p><u>General Ledger and Budgetary Control (2014/15)</u> Report published in May 2015. There were 1 'High' and 2 'Medium' recommendations. The High recommendation related to system access which has now been complete. One Medium recommendation related to an overpayment to Alive Leisure which has now been corrected and the other referred to the ongoing reconciliation process, which will be followed up after six months.</p>	Substantial Assurance
<p><u>Resort Services</u> Report published in June 2015. There was 1 'High' recommendation relating to the raising of invoices for beach chalets using the corporate accounts receivable system. This was implemented at the time of the audit.</p>	Full Assurance
<p><u>Leisure Trust</u> Report published in July 2015. There was 1 'Medium' recommendation to continue the development of a Quality Management System to ensure consistent procedures across all venues.</p>	Substantial Assurance
<p><u>Council Tax</u> Report published in July 2015. There were 4 'Medium' and 3 'Low' recommendations. The 'Medium' recommendations referred to carrying out a sample check of work completed by a temporary member of staff; prioritising monitoring and introduce defined error rate thresholds for increasing monitoring; disable system access for staff that no longer work for the Council; and develop an appropriate and proportionate review regime for long term Council Tax Scheme cases.</p>	Substantial Assurance



Audits completed in the first half of 2015/16	Overall Opinion
<p><u>Creditors and Payments</u> Report published in June 2015. There were 2 recommendations, 1 'High' and 1 'Low'. The 'High' recommendation concerned the need to ensure that personal details are destroyed once the credit card application procedure is completed. This was implemented during the audit.</p>	Full Assurance
<p><u>Payroll</u> Report published in June 2015. There were 2 recommendations, 1 'Medium' and 1 'Low'. The Medium recommendation relates to the data received for the Alive Leisure payroll. The format necessitates some manual adjustment by the Senior Accounting Technician which is not only time-consuming but also increases the risk of errors being introduced.</p>	Full Assurance
<p><u>Annual Governance Statement (AGS) review</u> Report published in September 2015. There was 1 'Medium' recommendation. The audit was a review of the processes used to compile the Annual Governance Statement covering the year 2014/15. The recommendation made is that a training presentation is made to the Extended Management Team prior to the AGS being prepared in 2016.</p>	Substantial Assurance
<p><u>Performance and Appraisal</u> Report published in September 2015. There was 1 'Medium' recommendation to ensure a consistent description of the appraisal process across different documents.</p>	Full Assurance
<p><u>Non-Domestic Rates and Business Rate Retention Scheme</u> Report published in September 2015. There was 1 'Medium' recommendation to undertake further work to ensure all taxpayers potentially eligible for the extended Retail Relief provisions, who have not already been contacted, are identified and written to.</p>	Substantial Assurance

Follow-up audits completed in the first half of 2015/16	Original report	Follow-up progress
<p><u>Care and Repair</u>            The report published in December 2014 contained 2 'High' and 5 'Medium' recommendations. Progress has been made on all recommendations but 3 recommendations have not been fully implemented due to time constraints, a key member of staff leaving and the subsequent recruitment process. Looking at the work to be carried out it is anticipated audit will keep a watching brief on the progress of the framework contract and a new target deadline of November 2015 agreed for the remaining recommendations.</p>	December 2014 Limited Assurance	August 2015 Adequate progress

**APPENDIX 2**

**NFI 2014/15 Exercise Data Matches  
Summary of Progress**

(Shaded grey = Closed)

<b>Dataset</b>	<b>NFI Matches report</b>	<b>No. matches</b>	<b>Comment</b>
Payroll	66.0 : Payroll to Payroll, between bodies	2	Both investigated and no issues arising. File closed.
Payroll	80 - Payroll to Creditors same bank account	26	All investigated and no issues arising. File closed.
Payroll	81 - Payroll to Creditors address quality	14	Matches being investigated. 2 have been closed with no issues arising.
Insurance	180.6 - Insurance Claimants to Insurance Claimants	7	Matches being investigated. 1 has been closed with no issue arising.
Creditors Standing Data	701. - Duplicate creditors by creditor name	222	No work commenced.
Creditors Standing Data	702 – Duplicate creditors by address detail	176	No work commenced.
Creditors Standing Data	703 – Duplicate creditors by bank account number	41	No work commenced.
Creditors History	707.0 : Duplicate records by invoice reference, invoice amount and creditor reference	86	53 recommended matches have been investigated and closed. In 52 cases no issues arising. 1 case has been identified as an overpayment and is being pursued for recovery.
Creditors History	708.0 : Duplicate records by invoice amount and creditor reference	339	95 recommended matches have been investigated and 94 closed with no issues arising. 1 case of a duplicate payment has now been returned.
Creditors History	709.0 : VAT overpaid	4	All investigated and no issues arising. File closed.
Creditors History	710.0 : Duplicate records by creditor name, supplier invoice number and invoice amount but different creditor reference	1	No issue arising.
Creditors History	711.0 : Duplicate records by supplier invoice number and invoice amount but different creditor reference and name	24	5 recommended matches have been investigated and closed. No issues arising.
Creditors History	713.0 : Duplicate records by postcode, invoice amount but different creditor reference and supplier invoice number and invoice date	7	1 case has been investigated and closed with no issues arising.
	9999 : Multiple Occurrence report	78	No work commenced
Benefits	Matches requiring investigation have been referred to the Single Fraud Investigation Service with the DWP.		

## AUDIT AND RISK COMMITTEE REPORT

<b>TYPE OF REPORT:</b> Audit	<b>Portfolio:</b> Performance
<b>Author Name:</b> Kate Littlewood	<b>CONSULTATIONS:</b> <b>Senior Management Team</b>
<b>Tel.:</b> 01553 616252	
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<b>OPEN</b>	

**Committee:** Resources and Performance – Audit & Risk Committee  
**Date:** 27<sup>th</sup> October 2015  
**Subject:** Corporate Risk Monitoring Report October 2015

<b>Summary</b>	This report presents the changes to the Risk Register since the last monitoring report in April 2015 and gives details of the risks falling into the 'Very High' category and the associated work to mitigate the effects.
<b>Recommendation</b>	To note the report.

### 1.0 Introduction and Background

- 1.1 The Committee receives reports on a half-yearly basis on the position of the Corporate Risk Register, with the last one being presented in April 2015.
- 1.2 Each risk on the register is scored in terms of Impact and Likelihood, according to criteria defined within the Corporate Risk Strategy. The definitions are attached for reference in **Appendix 2**.
- 1.3 The Risk Register is reviewed by the Executive Directors on a 6-monthly basis. Any existing entries on the register are considered for changes to the nature of the risk, progress to be reported and any adjustments to the risk scores. Risks that are no longer relevant are removed and new risks considered in the context of current circumstances are added. The risk reference numbers are not reallocated when risks are removed from the register, to enable the history to be maintained.
- 1.4 A summary of the changes to the Risk Register since the last monitoring report are detailed in section 2 below. Details of the 'Very High' risks are given in **Appendix 1** together with a list of the 'High' risks.

- 1.5 The full Risk Register, as agreed by Management Team, is placed on InSite, within the Risk Management section on the Corporate Documents tab.

## **2.0 Changes to the Register**

- 2.1 Apart from updates on progress for various entries, the main changes since April 2015 are listed below.

### **2.2 Risks to be removed:**

#### 1.14 – Individual Electoral Registration (IER)

The introduction of the IER had raised a risk that the new Government Digital Service would not be sufficiently robust in the run up period to the May 2015 Elections. The elections have now been completed and the IER is no longer an issue.

### **2.3 New risks identified:**

#### 1.15 – Car parking tickets

Score 9 (Medium Risk)

An appeal against a Civil Enforcement Ticket (for on-street parking) is challenging the wording on the ticket. If the appeal finds against the Council, it will impact on the validity of civil enforcement ticket issued since 2011, resulting in reputational damage and possibly some financial loss. The appeal was heard in March 2015 and at the time of writing this report, no decision had been made.

#### 2.12 – Major Planning Applications

Score 12 (High Risk)

There is a risk that if too many appeals are lost in proportion to the number of overall applications received, the applicants will have the choice of having their applications determined by the Inspectorate instead of the Council. This will mean the planning fee will go to the Inspectorate and not the Council.

#### 5.15- Land Charges

Score 12 (High Risk)

An adverse judgement in the 'East Sussex County Council v ICO & Others' case being decided by the European Court of Justice, may result in the Council being liable to reimburse an element of the Land Charges fees for the past ten years and reduced costs being charged in future. At the time of writing the report no decision had been made.

#### 5.16 – Pension Fund

Score 8 (Medium Risk)

The Council may be unable to meet all its liabilities in relation to the Norfolk Pension Fund.

## **2.4 Risk Rating Amendments**

### 1.11 – Due Diligence

The method of analysing new approaches to delivering services has now become established and more effective. As a result the Likelihood can now be reduced from 'Likely' to 'Unlikely'. The overall risk score reduces from 16 (Very High) to 8 (Medium).

### 2.10 – 5-year land supply

The loss of an appeal on a major site has further reduced the 5-year land supply identified in the LDF. The Likelihood has therefore been increased from 'Possible' to 'Certain', increasing the overall risk score from 12 (High) to 20 (Very High).

### 2.11 – Housing Market

The proposals for the Housing Company and Registered Provider have reduced the risk of the Council being adversely affected by any downturn in the housing market. Any surplus housing from the NORA and major housing projects can be effectively managed if necessary. The Impact has therefore been reduced from 'Major' to 'Possible', reducing the overall risk score from 12 (High) to 6 (Medium).

## **3.0 Conclusion**

The Risk Register continues to be actively monitored by Senior Management on a regular basis.

**CORPORATE RISK MONITORING REPORT  
OCTOBER 2015**

<b>Risk name: 5-year Land Supply</b>	<b>Responsible Director: Environment and Planning</b>
--------------------------------------	---

Ref	Description	Mitigation	Progress
2.10	The Planning Inspectorate does not agree that the Council has identified an adequate supply of land designated as housing development land for the next 5 years, and consequently this will lead to development approved in areas that the Council does not want developed.	Work on the LDF to ensure the Council can evidence that sufficient land is available. Also approve applications to boost the supply in the short-medium term.	<p>The High Court challenge was not successful. Therefore will continue assessing applications on the basis of a lack of 5 year land supply until it can be shown that the Council has such a supply.</p> <p>Concerns have been expressed through the District Council Network to the Planning Inspectorate, and also raised with local MP's.</p>

23

<b>Risk Score:</b>		
Impact	Major	4
Likelihood	Almost certain	5
Total score		20
<b>Risk Category</b>		Very High

**Risks categorized as 'High Risk' (Score 10-12)**

- 1.4 – Emergency Response (External)
- 2.5 – Empty retail properties/ Town centre decline
- 2.7 – Capital receipts
- 2.9 – Major housing developments
- 2.12 – Major Planning Applications
- 3.1 – Loss of ICT server
- 3.2 – ICT failure of backup.
- 4.1 – Health and Safety
- 5.2 – Fraud and Corruption
- 5.4 – Financial Plan
- 5.11 – Business Rates Appeals
- 5.12 – Loss of major businesses
- 5.13 - Loss of King's Court
- 5.14 – VAT – Trust arrangements
- 5.15 – Land Charges



CORPORATE RISK MONITORING REPORT  
OCTOBER 2015

<b>LIKELIHOOD</b>	5 Almost Certain	(5) (Green)	(10) (Orange)	(15) (Red)	(20) (Red) 2.10	(25) (Red)
	4 Likely		(8) (Green)	(12) (Orange) 5.15	(16) (Red)	(20) (Red)
	3 Possible		(6) (Green) 2.11	(9) (Green) 1.2, 1.6, 1.13, 1.15, 4.3	(12) (Orange) 1.4, 2.5, 2.7, 2.9, 2.12, 4.1, 5.2, 5.4, 5.11, 5.12, 5.13, 5.14	(15) (Red)
	2 Unlikely			(6) (Green) 1.7, 5.3, 5.16	(8) (Green) 1.1, 1.11, 2.1, 4.2	(10) (Orange) 3.1, 3.2
	1 Rare					(5) (Green)
		1 Insignificant	2 Minor	3 Moderate	4 Major	5 Extreme
		<b>IMPACT</b>				

Risk Category	How the Risk should be managed
Very High Risk (15 – 25) (Red)	Immediate action required. Senior Management must be involved.
High Risk (10 – 12) (Orange)	Senior Management attention needed and management responsibility specified.
Medium Risk (5 – 9) (Green)	Manage by specific monitoring or response procedures
Low Risk (1 – 4) (White)	Manage by routine procedures, unlikely to need specific or significant application of resources.

## Likelihood

Score	Definition
1 – Rare	The event may occur only in exceptional circumstances
2 – Unlikely	The event is not expected to occur
3 – Possible	The event might occur at some time
4 – Likely	The event will probably occur in most circumstances
5 – Almost Certain	The event is expected to occur in most circumstances

## Impact

Score	Definition
1 – Insignificant	<ul style="list-style-type: none"> <li>• Little disruption to services</li> <li>• No injury</li> <li>• Loss of &lt;£25,000</li> <li>• Unplanned change in service delivery due to budget overspend &lt;£100,000</li> <li>• No effect on delivering partnership objective fully</li> <li>• No damage to BCKLWN reputation</li> <li>• No or insignificant environmental damage</li> </ul>
2 – Minor	<ul style="list-style-type: none"> <li>• Some disruption to services</li> <li>• Minor injury</li> <li>• Loss of £25,000 - £175,000</li> <li>• Unplanned change in service delivery due to budget overspend of £100,000 - £500,000</li> <li>• Little effect on achieving partnership objective</li> <li>• Minimal damage to BCKLWN reputation (minimal coverage in local press)</li> <li>• Minor damage to local environment</li> </ul>
3 - Moderate	<ul style="list-style-type: none"> <li>• Significant disruption to services</li> <li>• Violence or threat of serious injury</li> <li>• Loss of £175,000 - £500,000</li> <li>• Unplanned change in service delivery due to budget overspend of £500,000 - £1m</li> <li>• Partial failure to achieve partnership objective</li> <li>• Significant coverage in local press</li> <li>• Moderate damage to local environment</li> </ul>

4 – Major	<ul style="list-style-type: none"> <li>• Loss of services for more than 48 hours but less than 7 days</li> <li>• Extensive or multiple injuries</li> <li>• Loss of £500,000 - £1m</li> <li>• Unplanned change in service delivery due to budget overspend of £1m - £3m</li> <li>• Significant impact on achieving partnership objective and significantly affects BCKLWN corporate objective</li> <li>• Coverage in national press</li> <li>• Major damage to local environment</li> </ul>
5 - Extreme	<ul style="list-style-type: none"> <li>• Loss of service for &gt;7 days</li> <li>• Fatality</li> <li>• Loss of &gt;£1m</li> <li>• Unplanned change in service delivery due to budget overspend &gt;£3m</li> <li>• Non delivery of partnership objectives and BCKLWN corporate objective</li> <li>• Extensive coverage in national press and TV</li> <li>• Significant damage to local or national environment</li> <li>• Requires resignation of Chief Executive, Executive Director or Leader of the Council</li> </ul>

<b>Open</b>	Would any decisions proposed :			
<b>Any especially affected Wards</b>	(a) Be entirely within Cabinet's powers to decide YES			
<b>None</b>	(b) Need to be recommendations to Council NO			
	(c) Be partly for recommendations to Council NO and partly within Cabinets powers –			
Lead Member: Nick Daubney E-mail: <a href="mailto:cllr.nick.daubney@west-norfolk.gov.uk">cllr.nick.daubney@west-norfolk.gov.uk</a>		Other Cabinet Members consulted: None		
		Other Members consulted: None		
Lead Officer: Toby Cowper E-mail: <a href="mailto:toby.cowper@west-norfolk.gov.uk">toby.cowper@west-norfolk.gov.uk</a> Direct Dial: 01553 616523		Other Officers consulted: Chief Financial Officer and Management Team		
Financial Implications YES	Policy/Personnel Implications NO	Statutory Implications (incl S.17) YES	Equal Opportunities Implications NO	Risk Management Implications YES

**Date of meeting: 3 November 2015**

### **MID YEAR REVIEW TREASURY REPORT 2015/2016**

#### **Summary**

The Council has formally adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (2011) and remains fully compliant with its requirements.

One of the primary requirements of the Code is:

Receipt by Council of an annual strategy report (including the annual investment strategy report) for the year ahead, a mid year review report and an annual review report of the previous year.

The Mid -Year Review Report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:

- A review of the Treasury Management Strategy Statement and Annual Investment Strategy 2015/2016
- The Council's capital expenditure (prudential indicators)
- A review of the Council's investment portfolio for 2015/2016
- A review of the Council's borrowing portfolio and debt rescheduling for 2015/2016
- An economic update for the first six months of 2015/2016 – Appendix 2

#### **Recommendations**

Cabinet is asked to note the report and the treasury activity.

#### **Reason for the Decision**

The Council must make a Mid -Year Review of its Treasury operation, as part of the CIPFA code of Practice.

## **1. Background**

- 1.1 The Council operates a balanced budget, which broadly means cash raised during the year and the use of reserves and balances will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering maximising investment return.
- 1.2 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 the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses and investing, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 1.3 As a consequence treasury management is defined as:

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

## **2. Summary of Key Points**

- The Treasury Management Strategy Statement is still fit for purpose.
- The Council is in compliance with its Prudential Indicators.
- Interest rates are predicted to rise by  $\frac{1}{4}$  of a percent in March 2016.
- The Council held £30.80m of investments as at 30 September 2015.
- The average rate of return on investments is 1.03% as at September 2015
- The Council held £13.3m of external debt as at 30 September 2015.
- The Council is paying an average rate of 3.38% on its external debt.
- During the first six months of the year, no debt rescheduling was undertaken.
- Council officers are continuing to investigate alternative options for investment where opportunities become available as an alternative to traditional investments. To date none of these investments have been taken up.

### 3. Introduction

- 3.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011 as adopted by this Council in April 2013.

The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a **Mid-year Review Report** and an Annual Report (stewardship report) covering activities during the previous year.
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- Delegation by the Council of the role of scrutiny of Treasury Management strategy and policies to a specific named body. For the Council the delegated body is the Audit Committee.

### 4. Treasury Management Strategy Statement and Annual Investment Strategy update

- 4.1 The Treasury Management Strategy Statement (TMSS) for 2015/2016 was approved by this Council on 3 March 2015. The Council's Annual Investment Strategy, which is incorporated in the TMSS, outlines the Council's investment priorities as follows:
1. Security of capital
  2. Liquidity requirements
  3. Return on capital invested
- 4.2 In the current economic climate it is considered appropriate to only invest with highly credit rated financial institutions, using Capita Asset Services suggested creditworthiness approach, including sovereign credit rating and credit default swap (CDS) overlay information provided by Capita Asset Services. This is as detailed in the Treasury Management Strategy Statement approved on 3 March 2015.

#### 4.3 Investment Counterparty Criteria

The current investment counterparty criteria approved in the Treasury Management Strategy Statement 2015/2016 is meeting the operational requirement of the treasury management function.

4.4 Investment and Borrowing during the first six months of the year has been in line with the strategy, and there have been no deviations from the strategy.

4.5 Council officers are continuing to investigate alternative options for investment where opportunities become available as an alternative to traditional investments. To date none of these investments have been taken up.

4.6 There is still considerable uncertainty in the financial and banking market, both globally and in the UK. In this context, it is considered that the strategy approved on 3 March 2015 is still fit for purpose in the current economic climate.

4.7 Royal Bank of Scotland - Capita, have advised that the Council should limit investments to a period of up to 1 year with RBS, This should remain in place until a firm timetable for privatisation of the bank has been established.

### 5. The Council's Capital Position and Associated Prudential Indicators

#### 5.1 Prudential Indicator for Capital Expenditure

The capital programme approved by Council on 3 February 2015 was updated for rephrasing and amendments as part of the closedown of the accounts 2014/2015. The updated estimates were approved by Council on 10 June 2015 and are shown in the table below. The capital programme 2015/2016 has been revised as reported in the Monthly Monitoring reports.

<b>Service Head</b>	<b>Capital Programme 2015/2016 (Council 3 February 2015)</b>	<b>Revised Capital Programme 2015/2016 (Council 10 June 2015)</b>	<b>Expenditure as at 30 September 2015</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Major Projects	11,094	19,495	4,269
Central and Community Services	1,849	2,001	420
Chief Executive	120	130	(5)
Commercial Services	2,033	3,226	610
Environment and Planning	43	43	0
Resources	745	0	0
<b>Total Capital Programme</b>	<b>15,884</b>	<b>24,896</b>	<b>5,293</b>

## 5.2 Changes to the Financing of the Capital Programme

The table below shows the expected financing arrangements of the capital expenditure detailed above. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR).

<b>Capital Expenditure Financed by</b>	<b>Capital Programme 2015/2016 (Council 3 February 2015)</b>	<b>Revised Capital Programme 2015/2016 (Council 10 June 2015)</b>
	<b>£'000</b>	<b>£'000</b>
<b>Total spend</b>	<b>15,884</b>	<b>24,896</b>
Financed by:		
Capital receipts	(9,903)	(2,428)
Capital grants and Contributions	(759)	(1,222)
Unsupported Borrowing	(902)	(1,387)
Capital reserves	(1,395)	(5,941)
<b>Total resource</b>	<b>(12,959)</b>	<b>(10,978)</b>
<b>Borrowing need</b>	<b>(2,925)</b>	<b>(13,918)</b>
<b>Total Financing</b>	<b>(15,884)</b>	<b>( 24,896)</b>

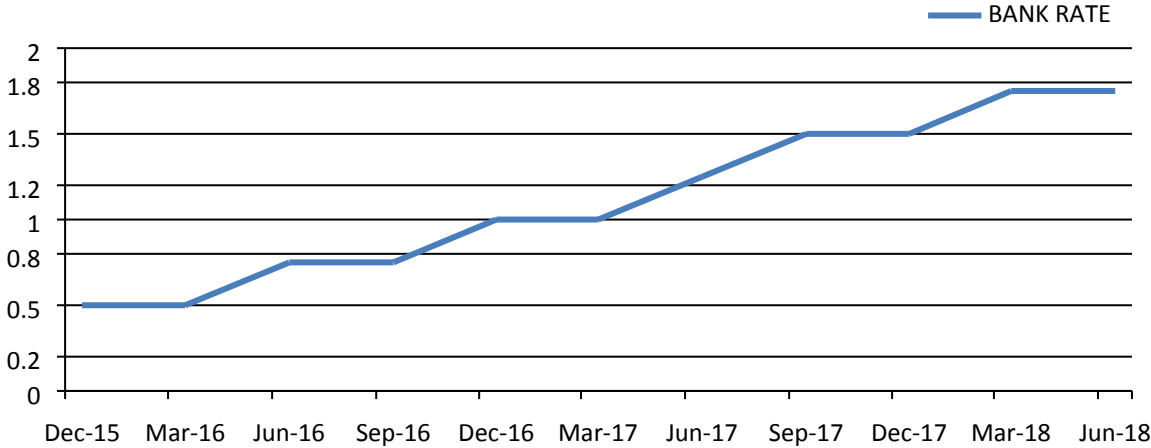
## 5.3 Prudential Indicator – Capital Financing Requirement

Capital Financing Requirement is defined as the underlying need to incur borrowing for capital purposes. The table below compares the original estimated CFR for year end 2015/2016 with the position as at year end 2014/2015.

	<b>2015/2016 Original Estimate £m</b>	<b>Position as at 31/3/2015 £m</b>	<b>2015/2016 Revised Estimate £m</b>
CFR	22.3	18.6	22.3



**6. Capita Asset Services interest rate forecast as at August 2015**

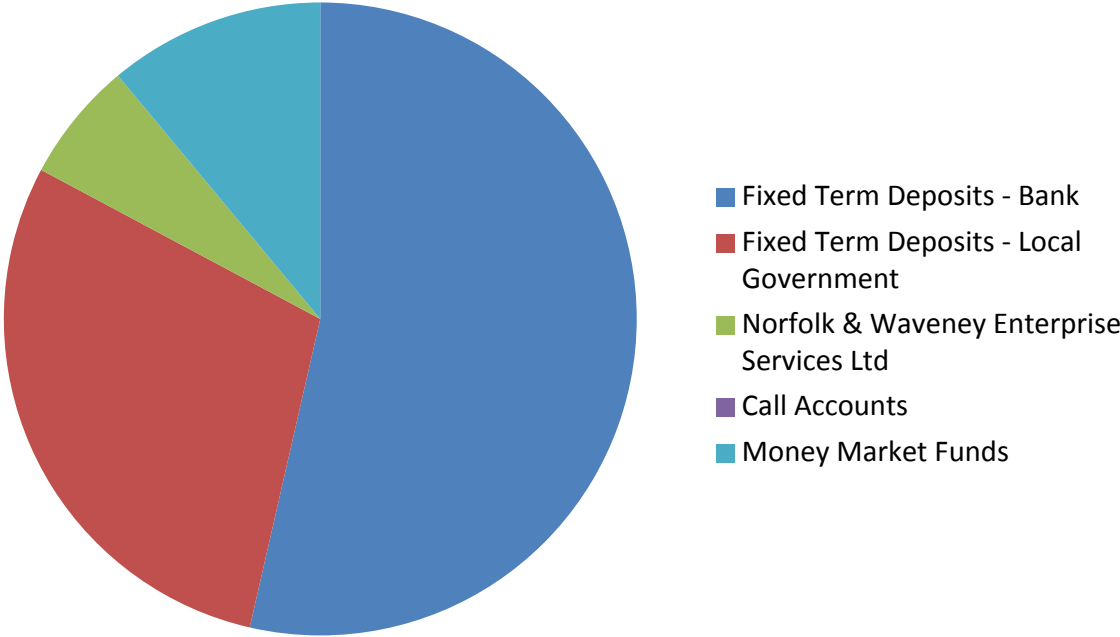


Please see 'Appendix 2' for the full Capita Asset Services economic forecast.

**7. Investment Portfolio 2015/2016**

**7.1 Investment Portfolio as at 30 September 2015**

**Investment Portfolio as at 30 September 2015**



Institution	Principal	Start Date	End Date	Rate %	Ratings
Bank of Scotland	2,000,000	01/12/2014	02/12/2015	1.05	A+
Bank of Scotland	3,000,000	03/12/2014	04/12/2015	1.05	A+
Bank of Scotland	2,000,000	13/04/2015	13/04/2016	1.00	A+
Glasgow City Council	3,000,000	12/11/2013	12/11/2015	0.95	AAA
Cheshire West and Chester Council	2,000,000	20/01/2014	20/01/2016	1.10	AAA
Goldman Sachs International Bank	2,000,000	01/09/2015	04/01/2016	0.59	A
Norfolk & Waveney Enterprise Services Ltd	500,000	27/03/2014		1.80	N/A
Norfolk & Waveney Enterprise Services Ltd	274,275	27/03/2015		1.80	N/A
Norfolk & Waveney Enterprise Services Ltd	339,864	29/06/2015		1.80	N/A
Norfolk & Waveney Enterprise Services Ltd	539,865	04/09/2015		1.80	N/A
Norfolk & Waveney Enterprise Services Ltd	240,616	18/09/2015		1.80	N/A
Wyre Forest District Council	2,000,000	14/07/2014	14/07/2016	0.95	AAA
King & Shaxson - RBS	2,000,000	28/08/2014	30/08/2016	1.68	BBB+
King & Shaxson – RBS	2,500,000	22/05/2015	22/05/2017	1.33	BBB+
Newcastle City Council	2,000,000	04/08/2014	04/08/2016	1.00	AAA
Qatar Bank	3,000,000	01/06/2015	01/06/2016	0.88	AA-
BNP Parabis	3,400,000	04/08/2015		0.50	A+
<b>Total</b>	<b>30,794,620</b>			<b>1.03</b>	

7.2 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. Given the current economic environment investment returns are likely to remain low for the foreseeable future.

7.3 The Council held **£30.80m** of investments (including temporary cashflow) as at 30 September 2015 (£26.63m at 31 March 2015) and the investment portfolio yield for the first six months of the year is **1.03%** against a benchmark 0.36% (7 day LIBID – London Interbank Bid Rate).

#### 7.4 Investment Benchmarking

The Council is currently a member of an investment benchmarking group, with other local councils, arranged by our Treasury advisors, Capita Treasury. In the latest benchmarking report for the first quarter of 2015/2016, the Council achieved the highest return with **0.93%**, and has now increased this average return to **1.03%** September 2015. See Appendix 3.

7.5 The Council's budgeted investment return for 2015/2016 is **£224,000** and the projected performance for the year is **£288,000** which is above expectations. This is as reported in the September monitoring report.

7.6 The Assistant Director confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2015/2016.

## 8. External Borrowing 2015/2016

### 8.1 Borrowing Portfolio as at 30 September 2015

Institution	Principal	Start Date	End Date	Rate
Suffolk County Council Local Enterprise Partnership (LEP)	2,500,000	27/03/2014	30/11/2018	1.80%
Barclays	5,000,000	22/03/2007	21/03/2077	3.81%
Barclays	5,000,000	12/04/2007	14/04/2077	3.81%
Public Works Loan Board	800,000	15/09/2009	14/09/2019	2.92%
<b>Total</b>	<b>13,300,000</b>			<b>3.38%</b>

8.2 The Council's capital financing requirement (CFR) for 2015/2016 is estimated to be £22.3m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The use of cash flow funds in lieu of borrowing is a prudent and cost effective approach in the current economic climate given the low rates of return on investments.

8.3 The Council's budgeted borrowing cost for 2015/2016 is **£465,000** and the projected performance for the year is **£455,000** which is below expectations. This is as reported in the September monitoring report.

8.4 During the first six months of the year, no debt rescheduling was undertaken.

### 8.5 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Net external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2015/16 and the next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent. The Assistant Director reports that no difficulties are envisaged for the current year in complying with this prudential indicator as detailed in the table below.

	<b>2015/2016 Original Estimate</b>	<b>Current Position 30 September 2015</b>	<b>2015/2016 Revised Estimate</b>
	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>
Gross borrowing	24,867	13,300	24,867
Less investments	(22,280)	(30,795)	(22,280)
<b>Net borrowing</b>	<b>2,593</b>	<b>(17,495)</b>	<b>2,593</b>
CFR (year end position)	22,274	-	22,274

#### 8.6 Prudential Indicator – External Debt / the Operational Boundary

Section 3 of the Local Government Act 2003 requires the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the “Affordable Borrowing Limit”. The Limit is in fact two sets of figures:

- The Authorised Limit represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members.
- The Operational Boundary for External Debt is a working practice limit that is set lower than the Authorised Limit. In effect the authorised limit includes a degree of contingency in case of circumstances arising that take the limit above the operational limit.

	<b>2015/2016 Original Estimate £m</b>	<b>Position as at 31/3/2015 £m</b>	<b>2015/2016 Revised Estimate £m</b>
Authorised Limit for external debt	35.0	35.0	35.0
Operational Boundary for external debt	30.0	30.0	30.0
Borrowing	24.9	13.3	24.9

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

- 9.1 It is a statutory duty for the Council to determine and keep under review the “Affordable Borrowing Limits”. Council’s approved Treasury and Prudential Indicators (affordability limits) are outlined in the approved Treasury Management Strategy Statement.

- 9.2 During the financial year to date the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators are shown in Appendix 1.

## **10. Financial Implications**

- 10.1 The financial implications of the borrowing and investment strategy are reflected in the financing adjustment figure included in the Financial Plan 2014/2018 approved at Cabinet on 26 February 2015 and updated as reported in the Budget Monitoring report.

## **11. Risk Management Implications**

- 11.1 There are elements of risk in dealing with the treasury management function although the production and monitoring of such controls as prudential indicators and the treasury management strategy help to reduce the exposure of the Council to the market. The costs and returns on borrowing and investment are in themselves a reflection of risk as seen by the market forces.

## **12. Policy Implications**

- 12.1 There are no changes in the Treasury Management policy at present.

## **13. Statutory Considerations**

- 13.1 The Council must set prudential indicators and adopt a Treasury Management Strategy and Annual Investment Strategy.

## **14. Access to Information**

The Budget 2014/2018 – A Financial Plan  
Capital Programme 2014/2018  
Treasury Management Strategy and Annual Investment Strategy 2015  
Budget Monitoring reports 2015/2016  
Capita Asset Services Monthly Investment Analysis Review  
Investment Portfolio Benchmarking Analysis June 2015  
Treasury Monthly Monitoring Reports

## Revised Prudential and Treasury Indicators

<b>PRUDENTIAL INDICATOR</b>	<b>2015/2016 revised estimate</b>	<b>2016/17 estimate</b>	<b>2017/18 estimate</b>
<b>BUDGET RELATED PRUDENTIAL INDICATORS</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Capital Expenditure</b> Approved at Cabinet 10 June 2015	15,884	3,447	4,588
<b>Ratio of financing costs to net revenue stream</b> (Equals net treasury cost ie cost of borrowing less the income from investments divided by the total of Government grant and total council tax).	3.82%	3.67%	4.28%
<b>Increase/(decrease) in Borrowing required each year</b>	2,925	712	587
<b>Capital Financing Requirement (CFR) as at 31 March</b> this reflects the Council's underlying need to borrow for capital purposes	£22,300	£14,722	14,309

<b>PRUDENTIAL INDICATOR</b>	<b>2015/2016 estimate</b>	<b>2016/17 estimate</b>	<b>2017/18 estimate</b>
<b>TREASURY MANAGEMENT PRUDENTIAL INDICATORS</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Authorised Limit for external debt</b>	35,000	40,000	40,000
<b>Operational Boundary for external debt</b>	30,000	35,000	35,000

	<b>2015/2016</b>	<b>2016/17</b>	<b>2017/18</b>
<b>Interest rate Exposures</b>			
	<b>Upper</b>	<b>Upper</b>	<b>Upper</b>
<b>Limits on fixed interest rates based on net debt</b>	35,000	40,000	40,000
<b>Limits on variable interest rates based on net debt</b>	25,000	30,000	30,000

<b>Maturity Structure of fixed interest rate borrowing</b>			
	<b>Lower</b>	<b>Upper</b>	<b>Portfolio Position as at 30 September 2015</b>
<b>Under 12 months</b>	0%	100%	0%
<b>12 months to 2 years</b>	0%	100%	0%
<b>2 years to 5 years</b>	0%	100%	24.8%
<b>5 years to 10 years</b>	0%	100%	0%
<b>10 years and above</b>	0%	100%	75.2%



### Economic update – Provided by Capita Asset Services as at September 2015

#### 3.1 Economic performance to date and outlook:

UK GDP (Gross Domestic Product) growth of 3.0% in 2014 was the strongest growth since 2006. However, quarter 1 of 2015 was weak at +0.4% though there has been a rebound in quarter 2 to +0.7%. The Bank of England is forecasting growth to remain around 2.4 – 2.8% over the next three years. The most recent forward looking surveys in August for the services and manufacturing sectors showed a marked slow down in the rate of growth; this is not too surprising given the appreciation of Sterling against the Euro and weak growth in the EU, China and emerging markets creating headwinds for UK exporters. For this recovery to become more balanced and sustainable in the longer term, the recovery still needs to move away from dependence on consumer expenditure and the housing market to manufacturing and investment expenditure. This overall strong growth has resulted in unemployment falling quickly over the last few years although it has now ticked up recently after the Chancellor announced in July significant increases planned in the minimum (living) wage over the course of this Parliament.

3.2 The MPC (Monetary Policy Committee) has been particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of inflation in order to ensure that the recovery will be sustainable. It has therefore been encouraging in 2015 to see wage inflation rising significantly above CPI (consumer price index) inflation which slipped back to zero in June and August. However, with the price of oil taking a fresh downward direction and Iran expected to soon rejoin the world oil market after the impending lifting of sanctions, there could be several more months of low inflation still to come, especially as world commodity prices have generally been depressed by the Chinese economic downturn. If UK labour productivity also improves significantly, this could also keep inflation subdued in the UK. The August Bank of England Inflation Report forecast was notably subdued with inflation barely getting back up to the 2% target within the 2-3 year time horizon.

3.3 There are therefore considerable risks around whether inflation will rise as strongly as previously expected which will make it more difficult for the central banks of both the US and the UK to raise rates as soon as had been expected, especially given the recent major concerns around the slowdown in Chinese growth, the knock on impact on emerging countries from falling oil and commodity prices, and the volatility we have seen in equity and bond markets in 2015 so far, which could potentially spill over to impact the real economies rather than just financial markets. On the other hand, there are also concerns around the fact that the central banks of the UK and US have few monetary policy options left to them given that central rates are near to zero and huge QE(Quantitative Easing) is already in place. There are therefore arguments that they need to raise rates sooner, rather than later, so as to have ammunition to use if there was a sudden second major financial crisis. But it is hardly likely that they would raise rates until they are sure that growth was securely embedded and no inflation was not a significant threat.

- 3.4 The forecast for the first increase in Bank Rate has therefore been pushed back from Q1 to Q2 2016; increases after that will be at a much slower pace and to much lower levels than prevailed before 2008, as increases in Bank Rate will have a much bigger effect on heavily indebted consumers than they did before 2008.
- 3.5 The Government's revised Budget in July eased the pace of cut backs from achieving a budget surplus in 2018/19 to achieving that in 2019/20. Monthly public sector deficit figures have been pointing towards a slight undershoot of the Chancellor's most recent target for 2015/16.

### Capita Asset Services interest rate forecast (August 2015)

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
<b>BANK RATE</b>	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.50	1.50	1.75	1.75
<b>3 month LIBID</b>	0.60	0.70	0.80	0.90	1.10	1.30	1.40	1.50	1.80	1.90	1.90
<b>6 month LIBID</b>	0.80	0.90	1.00	1.10	1.30	1.50	1.60	1.70	2.00	2.10	2.10
<b>12 month LIBID</b>	1.10	1.20	1.30	1.40	1.60	1.80	1.90	2.00	2.30	2.40	2.40
<b>5 yr PWLB</b>	2.40	2.50	2.60	2.80	2.90	3.00	3.10	3.20	3.30	3.40	3.50
<b>10 yr PWLB</b>	3.00	3.20	3.30	3.40	3.50	3.70	3.80	3.90	4.00	4.10	4.20
<b>25 yr PWLB</b>	3.60	3.80	3.90	4.00	4.10	4.20	4.30	4.40	4.50	4.60	4.60
<b>50 yr PWLB</b>	3.60	3.80	3.90	4.00	4.10	4.20	4.30	4.40	4.50	4.60	4.60

Capita Asset Services undertook a review of its interest rate forecasts on 11 August. Later in August, fears around the slowdown in China caused major volatility in equities and bonds and sparked a flight from equities into safe havens like gilts and depressed PWLB (public works loans board) rates. However, there is much volatility in rates as news ebbs and flows in negative or positive ways. This latest forecast includes a first increase in Bank Rate in quarter 2 of 2016.

The overall balance of risks to economic recovery in the UK is currently evenly balanced. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

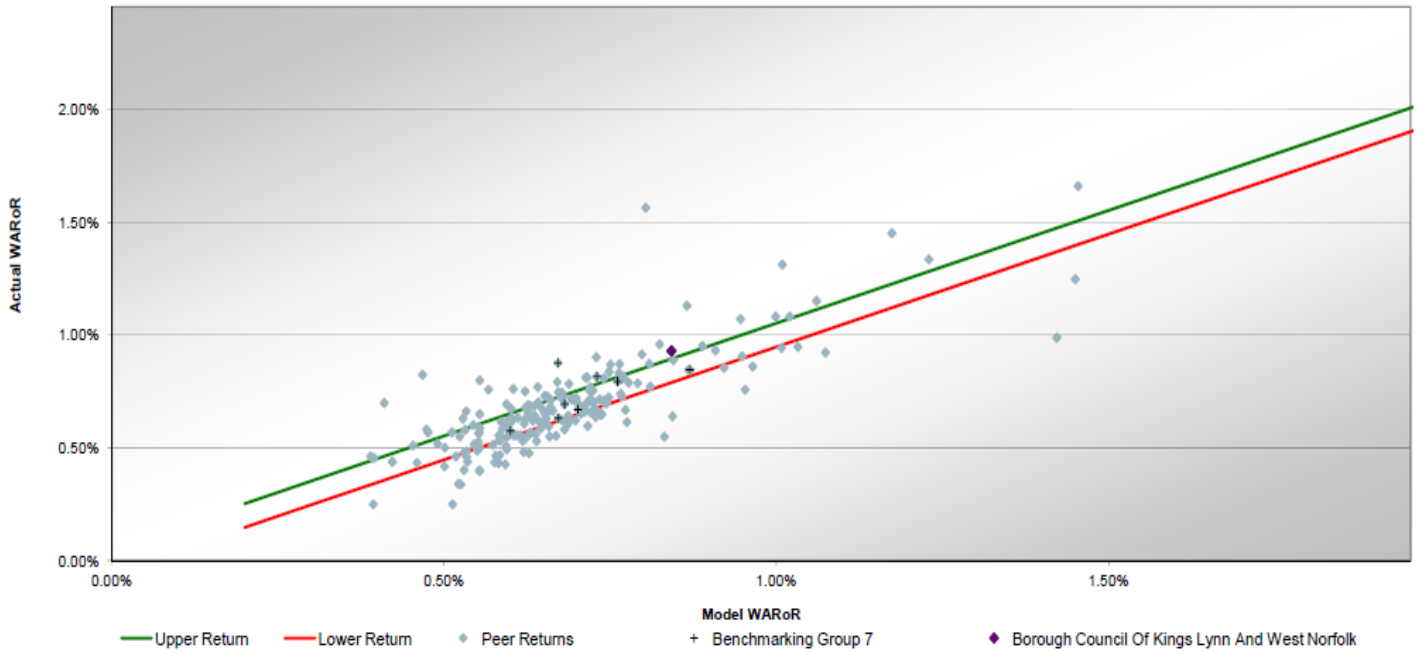
- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK economic growth turns significantly weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU, US and China.
- A resurgence of the Eurozone sovereign debt crisis.
- Recapitalisation of European banks requiring more government financial support.

- Monetary policy action failing to stimulate sustainable growth and to combat the threat of deflation in western economies, especially the Eurozone and Japan.
- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or the start of Fed. rate increases, causing a flight to safe havens

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

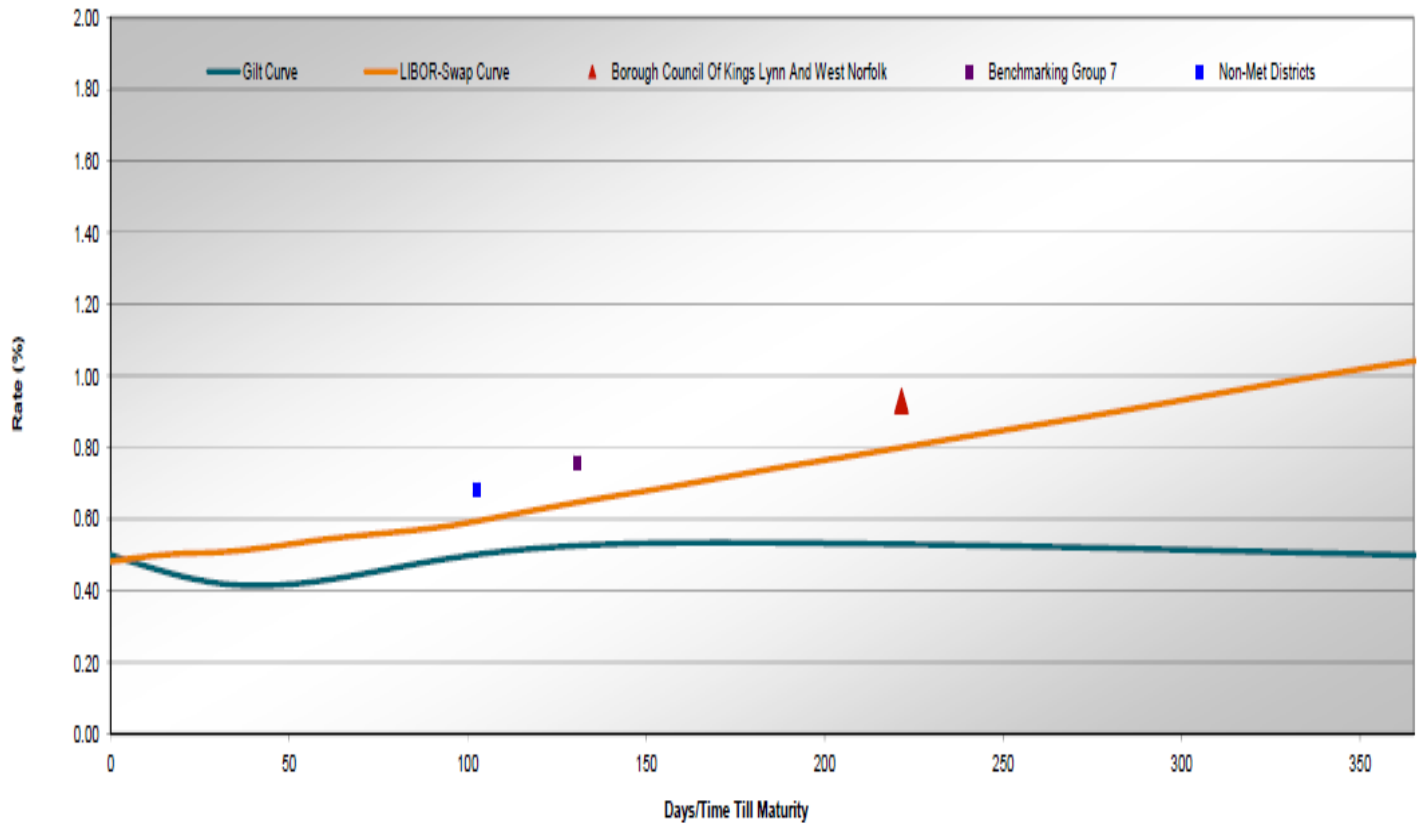
- Uncertainty around the risk of a UK exit from the EU.
- The ECB (European Central Bank) severely disappointing financial markets with a programme of asset purchases which proves insufficient to significantly stimulate growth in the EZ (Eurozone).
- The commencement by the US Federal Reserve of increases in the Fed. funds rate in 2015, causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

Population Returns against Model Returns



	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
Borough Council Of Kings Lynn And West Norfolk	0.93%	0.84%	0.09%	0.79%	0.89%	Above

Returns Comparable Against the Risk-Free Rate and LIBOR Curve



## AUDIT AND RISK COMMITTEE WORK PROGRAMME 2015/2016

### 8 June 2015

- Final Accounts and Statement of Accounts for year ended 31 March 2015: Revenue Outturn, Capital Programme and Resources.

### 23 June 2015

- Internal Audit end of Year 2014/2015 Progress Report.
- End of Year Report of Benefit Investigations Unit and Internal Audit work on the National Fraud Initiative.
- Corporate Risk Monitoring Report April 2015
- Strategic Internal Audit Plan 2015/2018

### 21 July 2015

#### **5.30 pm start – First Item – Presentation on the Annual Governance Statement – all Members invited to attend**

- Audit Manager's Annual Report
- Effectiveness Reviews
- Business Continuity Annual Update – D Robson

#### Cabinet Report

- Annual Treasury Report 2014/2015.

### 7 September 2015

#### **5.30 pm Start – First Item – Briefing/Training on Closing of Accounts, etc – all Members invited to attend**

- Monitoring Officer Report 2014/2015 – E Duncan

#### Cabinet Reports

- Statement of Accounts 2014/2015
- Annual Governance Statement

- Review of the Effectiveness of the Audit and Risk Committee
- Business Continuity Management Policy Statement and Strategy

### **27 October 2015**

#### **5.30 pm start – First Item – Briefing/training on Role of Audit and Risk Committee – all Members invited to attend**

- Internal Audit Half Year Progress Report
- Fraud Report
- Risk Register

#### **Cabinet Report**

- Mid Year Treasury Report

### **24 November 2015**

- Annual Audit Letter – External Audit

### **23 February 2016**

#### **5.30 pm Start – First Item – Risk Assessment Training – all Members invited to attend**

- Treasury Management (Cabinet Report)
- Annual Certification of Claims and Returns
- External Audit Plan

## FORWARD DECISIONS LIST

Date of meeting	Report title	Description of report	Key or Non Key Decision	Decision Maker	Cabinet Member and Lead Officer	List of Background Papers	Public or Private Meeting
3 November 2015	Customer Services and Channel Shift		Non	Cabinet	Leader Exec Dir – D Gates		Public
	Treasury Management – Mid Year Report		Non	Cabinet	Leader Asst Director – L Gore		Public
	Licensing Act Review of Policies		Non	Council	Housing and Community Exec Director – G Hall		Public
	Gambling Act Review of Policies		Non	Council	Housing and Community Exec Director – G Hall		Public
	Review of Hackney Carriage & Private Hire Licensing Fees		Non	Council	Housing and Community Exec Director – G Hall		Public
47	Polling District and Polling Place Review		Non	Council	Leader Chief Executive		Public
	Residential Caravan Site Licensing		Non	Council	Housing and Community Chief Executive		Public

Date of meeting	Report title	Description of report	Key or Non Key Decision	Decision Maker	Cabinet Member and Lead Officer	List of Background Papers	Public or Private Meeting
1 December 2015	Electoral Review		Key	Council	Leader Chief Executive		Public
	Corporate Business Plan 2015-19		Key	Council	Chief Executive		Public
	Hackney Carriage & Private Hire Licensing Conditions & Procedures Review		Non	Council	Community Exec Director – G Hall		Public
	Smoke and Carbon Monoxide Alarm Regulations 2015		Non	Cabinet	Housing and Community Chief Executive		Public
	Community Infrastructure Levy		Key	Council	Housing and Community Exec Director – G Hall		Public
	The Statement of		Non	Cabinet	Development		Public

	Community Involvement				Exec Director G Hall		
	Affordable Housing Company		Non	Cabinet	Housing & Community		Public
	Freebridge/Council Liaison Board		Non	Cabinet	Housing and Community Chief Executive		Public

Date of meeting	Report title	Description of report	Key or Non Key Decision	Decision Maker	Cabinet Member and Lead Officer	List of Background Papers	Public or Private Meeting
12 January 2016	Final Council Tax Support Scheme 2016/17		Key	Council	Leader Asst Exec Dir – L Gore		Public
	Council Tax Support Discretionary Hardship Fund 1016/17		Key	Council	Leader Asst Exec Dir – L Gore		Public

Date of meeting	Report title	Description of report	Key or Non Key Decision	Decision Maker	Cabinet Member and Lead Officer	List of Background Papers	Public or Private Meeting
12 February 2016	Budget 2016/17		Key	Council	Leader Asst Exec Dir – L Gore		Public