

BOROUGH COUNCIL OF KING'S LYNN & WEST NORFOLK

AUDIT COMMITTEE

Minutes from the Meeting of the Audit Committee held on Monday, 13th February, 2017 at 5.00 pm in the Committee Suite, King's Court, Chapel Street, King's Lynn

PRESENT: Councillor D Pope (Chairman)
Councillors Mrs J Collingham, M Hopkins, P Kunes, C Manning, G Middleton,
P Rochford (Substitute) and T Smith

Portfolio Holders:

Councillor B Long, Leader
Councillor A Lawrence, Portfolio Holder Housing and Community
Councillor I Devereux, Portfolio Holder Environment

Officers:

Lorraine Gore, Assistant Director
Toby Cowper, Group Accountant
Jo Stanton, Revenues and Benefits Manager
Kathy Woodward, Audit Manager
Sarah Arthurton, Senior Accountancy Technician

By Invitation:

Sappho Powell and Dan Cooke from Ernst & Young, External Auditors

The Committee held a minutes' silence for the late Councillor Ian Gourlay

A71 **APOLOGIES**

Apologies for absence were received from Councillors J Collop and T Tilbrook.

A72 **MINUTES**

The Minutes of the Audit Committee held on 28 November 2016 were agreed as a correct record and signed by the Chairman.

A73 **DECLARATIONS OF INTEREST**

There were no declarations of interest.

A74 **URGENT BUSINESS UNDER STANDING ORDER 7**

There was no urgent business.

A75 **MEMBERS PRESENT PURSUANT TO STANDING ORDER 34**

There were no Members present under Standing Order 34.

A76 **CHAIRMAN'S CORRESPONDENCE (IF ANY)**

There was none.

A77 **MATTERS REFERRED TO THE COMMITTEE FROM OTHER COUNCIL BODIES AND RESPONSES MADE TO PREVIOUS COMMITTEE RECOMMENDATIONS/REQUESTS**

None.

A78 **TREASURY MANAGEMENT TRAINING**

The Committee received a presentation from Chris Scott, Head of Public Sector Treasury Advisory Team (a copy of the presentation is attached to the minutes).

Chris Scott responded to questions from the Panel on the following:

- Disparity in borrowing v investment.
- Business Rates settlement.
- Potential future increase in interest rates.
- Council investments.

The Chairman, Councillor Pope thanked Chris Scott for the presentation.

A79 **TREASURY MANAGEMENT STRATEGY 2017/2018**

In presenting the report, the Group Accountant reminded the Committee that the Council was required to receive and approve a Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy which covered:-

- Capital Plans, including Prudential Indicators.
- A Minimum Revenue (MRP) Policy.
- The Treasury Management Strategy.
- An Investment Strategy.

In response to a question regarding the Council's investments and credit ratings, the Group Accountant explained that if the credit rating was considered to be risky then the Council would immediately withdraw from short term investments. However, with long term investments the Council would remain tied in to a period. It was

highlighted that the Borough Council monitored its investments on a daily basis and diversified its cash whenever possible.

Following further questions on investment and why local authorities ratings were unlimited, the Group Accountant explained that local authorities received a high credit rating as it was unlikely a Council would become bankrupt and therefore posed no credit risk.

In response to a question on the period length of longer term loans, the Group Accountant explained that when the loans were taken out originally for a 70 year period (2007 – 2077), with a lenders option whereby the lender could choose to withdraw a loan after a 10 year period if it so wished or increased the interest rate and given the Borough Council the option to withdrawn.

RESOLVED: The Committee support the recommendation as set out below.

Cabinet is asked to recommend to Council:

- 1) The Treasury Management Strategy 2017/2018, including treasury indicators for 2017/2021.
- 2) The Investment Strategy 2017/2018.
- 3) The Minimum Revenue Provision Policy 2017/2018.
- 4) Adopt the revised Treasury Management Practices (TMPs).

A80

EXTERNAL AUDIT PLAN

S Powell from Ernst & Young presented the Audit Plan for the year ending 31 March 2017. She explained that the purpose of the report was to provide the Committee with a basis to review Ernst & Young's proposed audit approach and scope for 2016/2017 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

The Committee was advised that the plan summarised Ernst & Young's initial assessment of the key risks during the development of an effective audit for the Council, and outlined their planned audit strategy in response to those risks.

Members' attention was drawn to the following sections of the Audit Plan:

- Financial Statement Risks – 3 significant risks: Non-Current Assets, Risk of Fraud in revenue recognition and Risk of management override.
- Other Financial Risks as detailed on page 73 of the Agenda.
- Value for Money Risks.
- Materiality.
- The External Audit Team.
- Timetable of Communication, Deliverables and Insights.

The Chairman, Councillor Pope thanked S Powell for the report and invited questions from the Committee.

There were no questions.

RESOLVED: That the Audit Plan be agreed.

A81

CERTIFICATION OF ANNUAL CLAIMS AND RETURNS ANNUAL REPORT 2015/2016

S Powell presented the report which summarised Ernst & Young's work on certification and assurance for the 2015/2016 claims.

The Committee was informed that one error had been detected during the audit.

S Powell explained that Ernst & Young had checked and certified the housing benefits subsidy claim with a total value of £40,213,082 and met the submission deadline. A qualification letter was issued to the Department of Work and Pensions (DWP) and it had been confirmed that there were no outstanding issues relating to the claim, details of which were included in section 1 of the report.

It was noted that for 2015/16 the level of error identified was lower than that identified in 2013/14. Ernst & Young were therefore proposing to reduce the fee by £1,046 to take account of the reduced amount of audit work that needed to be completed due to the reduction in errors found.

In response to questions regarding Universal Credit, S Powell explained that the proposed changes would take time to implement but would not take place in the foreseeable future. The Revenues and Benefits Manager outlined the changes and timescales for different categories of claimants, but reiterated that it would be several years before Universal Credit was fully in operation.

Councillor Manning commended the excellent work undertaken by officers in that only one error had been detected when dealing with over £40m housing benefits.

In response to questions on the only error found, S Powell explained that Ernst & Young undertook their work on a sample basis and explained that the reduction in fee was subject to PSAA agreement.

RESOLVED: The Certification of Claims and Returns Annual Report 2015/16.

A82

STRATEGIC INTERNAL AUDIT PLAN 2017/2022

On behalf of the Committee, the Chairman, Councillor Pope thanked Kate Littlewood, Audit Manager, who would shortly be retiring for her valuable work during her time at the Borough Council and wished her well for the future.

K Woodward passed Kate's thanks onto the Committee and was disappointed that she was not able to be present for her last meeting this evening.

K Woodward presented the Audit Plan for the forthcoming five years and which covered areas of the Council where it had been recommended that an audit be undertaken.

In response to a question regarding Appendix 1, K Woodward explained that the end column related to the number of days allocated to the audit. The number of days assigned to an audit was based on the risk rating.

It was noted that currently, there was a vacant post in the Internal Audit Team which was being recruited to, therefore some of the work identified in the proposed plan could be brought forward.

K Woodward undertook to circulate the information which had not been included with the table on page 107 of the report.

RESOLVED: The Committee acknowledged the Internal Audit resources and agreed with work planned for 2017/2022.

A83

REVIEW OF ANTI FRAUD AND ANTI-CORRUPTION STRATEGY, WHISTLEBLOWING POLICY AND FRAUD RESPONSE PLAN

K Woodward explained that there were no major policy changes in the three reports and undertook to circulate the documents which included the tracked changes to the Committee.

There were questions or comments from the Committee.

The Chairman, Councillor Pope thanked K Woodward for attending the meeting and that the Committee looked forward to receiving further reports from her at future meetings.

RESOLVED: The Committee agreed the changes to the Anti-Fraud suite of documents and recommend approval to of the revised documents to Cabinet.

A84 **EXCLUSION OF PRESS AND PUBLIC**

RESOLVED: That under Section 100(A)(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in paragraphs 1, 2 and 3 of Part 1 of Schedule 12A to the Act.

A85 **EXEMPT REPORT: RISK BASE VERIFICATION POLICY UPDATE**

The Revenues and Benefits Management presented the report and responded to questions from the Committee.

RESOLVED: Members noted the Risk Based Verification (RBV) updates in the report.

RETURNED TO OPEN SESSION

A86 **COMMITTEE WORK PROGRAMME 2017/2018**

The Committee noted the Work Programme 2017/2018.

The Chairman, Councillor Pope informed the Committee that at the next meeting on 30 May 2017, a training session would be held "How an Audit is undertaken."

A87 **DATE OF NEXT MEETING**

The next meeting of the Audit Committee will take place on Tuesday 30 May 2017 at 5 pm.

The meeting closed at 6.40 pm

Member Briefing Treasury Management

Borough of King's Lynn & West Norfolk
13th February 2017
Presented by Chris Scott
Head of Public Sector Treasury Advisory Team



Presentation Structure

Areas to be covered

- Background
- Economic update
- Investment Management
- Debt Management

- Questions

Background

Why are you here?

CIPFA Code of Practice

- “{Members are} responsible for ensuring effective scrutiny of the treasury management strategy and policies”

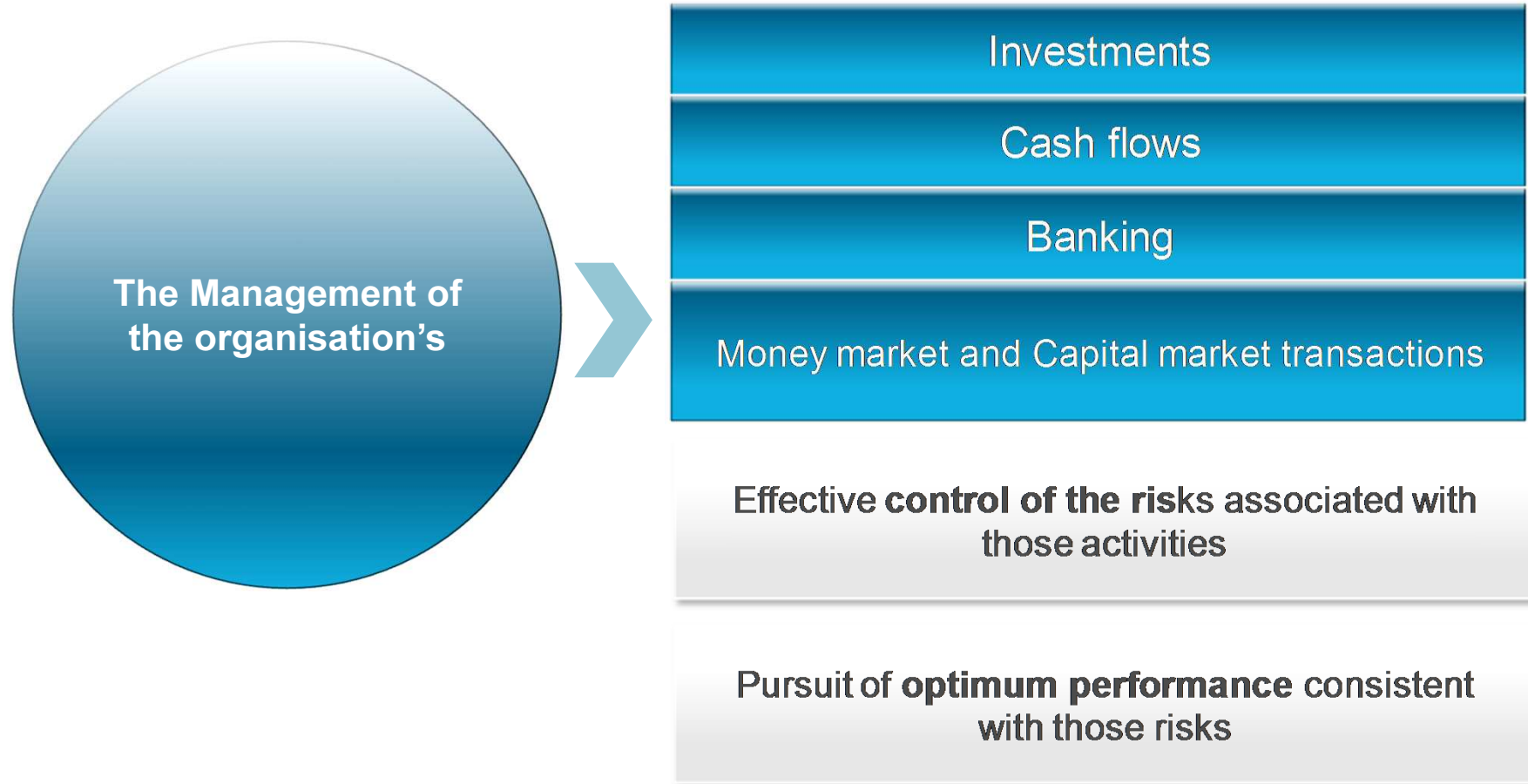
Quite a technical/regulatory area, so:

- Officers responsible for drafting/compliance/implementing
- Members responsible for review and scrutiny

- **Detailed knowledge not necessary – Common sense review**

Definition of Treasury Management (TM) – What does it mean ?

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Council Reporting Responsibilities

- **In advance of year: Treasury Management Strategy**
 - Prudential Indicators (PI's)
 - Minimum Revenue Provision Policy (MRP)
 - TM Strategy
 - Investment Strategy (or more frequently)
- **Draws together:**
 - Capital plans (PI's)
 - How capital is paid for (MRP)
 - How cash is to be organised (Treasury Strategy)
 - Where/how to invest (Investment Strategy)
- **Members approve parameters, officers execute strategy**

Council Reporting Responsibilities

- **Annual Report - Review of what has happened against the plan**
- **By 30th September following:**
 - Annual Report
 - Selected PI's
- **The Annual Treasury Management Report to June Cabinet each year covers this**
- **The actual performance will be within the parameters set, but:**
 - It is unlikely that actual treasury operations will follow the plan completely

Council Reporting Responsibilities

Mid Year Report - Keeping members up to date

- **After 30th September:**
 - Mid year report
- **Seeks to:**
 - reassure Members than plan is being followed
 - allows officers to amend strategy if necessary
- **Other reporting (not in regulatory controls) but recommended**
- **More regular reporting often provided**

Economic Update

Economic Summary

Current considerations

- The Bank of England (BoE) cut the bank rate for the first time since 2009 to 0.25% in August 2016 and expanded its Quantitative Easing (QE) programme by £60bn to £435bn
- The November Inflation Report showed the BoE amending its growth forecast to 2.2% for 2016 and increased its 2017 forecast to 1.4%. Inflation forecasts were revised up due to the dramatic fall in sterling, and prices are now forecasted to surpass the BoE's 2% target by mid-2017. Consumer Prices are forecast to be 2.7% in both 2017 and 2018 by the BoE before falling to 2.5% in 2019
- The headline inflation figure, CPI, rose to 1.6% in December on an annual basis, as expected the fall in sterling was the main contributor
- The preliminary estimate for Q4 GDP showed a rise of 0.6%, unchanged from the previous quarter. On the year, growth was 2.2% higher than a year ago
- The UK unemployment rate remained at 4.8% in the three months to November
- Brexit negotiations to begin
- US situation starting to develop – will this create uncertainty?
- Scope for significant political upheaval in Europe during 2017

THE ONLY CERTAINTY IS UNCERTAINTY!

UK Interest Rate Forecast

Bank Rate														
	NOW	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Capita Asset Services	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
Capital Economics	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%
5yr PWLB Rate														
	NOW	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Capita Asset Services	1.55%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
Capital Economics	1.55%	1.40%	1.60%	1.80%	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.70%	2.80%	2.90%	3.00%
10yr PWLB Rate														
	NOW	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Capita Asset Services	2.33%	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
Capital Economics	2.33%	2.20%	2.30%	2.40%	2.55%	2.60%	2.70%	2.70%	2.80%	2.90%	3.10%	3.20%	3.30%	3.40%
25yr PWLB Rate														
	NOW	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Capita Asset Services	2.95%	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
Capital Economics	2.95%	2.75%	2.90%	3.05%	3.15%	3.25%	3.25%	3.35%	3.45%	3.55%	3.65%	3.75%	3.95%	4.05%
50yr PWLB Rate														
	NOW	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Capita Asset Services	2.72%	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
Capital Economics	2.72%	2.70%	2.80%	2.90%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.60%	3.70%	3.80%	3.90%

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What does this mean for investments and borrowing?

Investments

- Still some counterparty risk
- Returns to remain depressed
- Minimise liquidity and lock in where appropriate
- Consider other long term options where appropriate
- LA's to concentrate on "policy" investments

Debt

- Borrowing rates to stay close to historic lows
- Limited scope for upward movement in long term rates at present
- Short term rates to remain unchanged for some time so will present the cheaper options
- "Cost of carry" to remain a feature (will be discussed later)

Investment Management

Why does the Council have investments?

What are the resources that back the investments:

- Provisions – cash put aside for a liability of uncertain timing or amount
- Grants and Contributions – cash received and yet to be spent
- Earmarked reserves – cash put aside for specific purpose
- Balances – general cash not yet allocated
- Working Capital – debtors / creditors

Under / over borrowed position will reduce / increase cash balances (and therefore investments)

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Current Position

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF BNP Paribas	3,000,000	0.38%		MMF	AAA	0.000%
MMF LGIM	3,000,000	0.32%		MMF	AAA	0.000%
MMF HSBC	2,000,000	0.28%		MMF	AAA	0.000%
MMF Federated Investors (UK)	600,000	0.26%		MMF	AAA	0.000%
The Royal Bank of Scotland Plc	2,500,000	1.33%	22/05/2015	22/05/2017	BBB+	0.058%
Qatar National Bank	3,000,000	1.05%	01/06/2016	01/06/2017	A+	0.028%
Santander UK Plc	3,000,000	1.15%		Call180	A	0.033%
Fife Council	3,000,000	0.95%	12/11/2015	13/11/2017	AA	0.006%
Cheshire West & Chester Council	2,000,000	0.99%	20/01/2016	19/01/2018	AA	0.008%
Bury Metropolitan Borough Council	3,000,000	1.00%	21/04/2016	23/04/2018	AA	0.012%
Borrower - Funds	Principal (£)	Interest Rate	Start Date	Maturity Date		
Total Investments	£25,100,000	0.82%				0.016%

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Comparison

Name	Borough Council of Kings Lynn & West Norfolk	Breckland Council	Cambridge City Council	Norfolk County Council	Norwich City Council	Norfolk PCC
WARoR	0.82%	0.39%	0.58%	1.05%	0.72%	0.74%
WA Risk	2.036	2.697	3.017	5.000	5.696	4.651
WAM	179	33	133	226	88	82
WA Tot. Time	371	85	263	415	248	264
Performance	Above	Inline	Inline	Above	Inline	Inline

Name	Suffolk PCC	South Norfolk Council	St Edmundsbury Borough Council	Suffolk Coastal District Council	Waveney District Council
WARoR	0.54%	0.79%	0.72%	0.60%	0.56%
WA Risk	4.845	4.465	5.393	5.000	5.000
WAM	37	72	140	79	93
WA Tot. Time	99	134	265	193	188
Performance	Inline	Above	Inline	Inline	Below

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Current Investment Position

- Current investments as at the end of December 2016 c.£25.1m
- Healthy return of 0.82% vs. 0.25% bank rate
- Low risk approach taken
- Diversified portfolio with a weighted average maturity of 179 days
 - 54% exposure to fixed term deposits
 - 12% exposure to a 180 day call account and
 - 35% exposure to four AAA MMF's

Managing Risk – Security v Liquidity v Yield (SLY)

In order of importance:

Security

- **Likelihood of getting investment back on terms invested**
 - Strong = low return
 - Weak = high return

Liquidity

- **Length of investment**
 - Return linked to
 - status of counterparty
 - Interest rate outlook

Yield

- **Combination of the above**

Investment Decision Information

Market Indicators

- Credit Ratings
- Credit Default Swaps (CDS)
- Equities
- Bond “spreads”

All tradeable instruments in their own right

Capita Asset Services Analysis

- Direct affect of counterparty rating changes
- Weekly Investment Monitor
 - Economic outlook
 - Rating Changes
 - Market indicators / intelligence

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Debt Management

Why does the Council borrow?

- Borrowing is there to provide funding for long term capital investment
- The Capital Financing Requirement (CFR) indicates the theoretical need to borrow
- CFR calculated from the Balance Sheet
- Strategic borrowing considerations:
 - Level of debt?
 - Type of debt?
 - Prudence, affordability and sustainability
- Debt strategy will impact on level of investments

Current CFR and Debt Position

- CFR at 31/3/16 c. £19.8m (Borrowing need per balance sheet)
- Actual debt as at 31/3/16 £17.4m which consists of three market loans and a EIP loan from the PWLB
- Therefore a small potential borrowing requirement of £2m
 - Cash available at 31/3/16 c. £29.5m as per the balance sheet
 - What are the cash balance projections going forward and will it be available to support the CFR?
- CFR increasing over the next few years so is this position sustainable?

Cost of carry

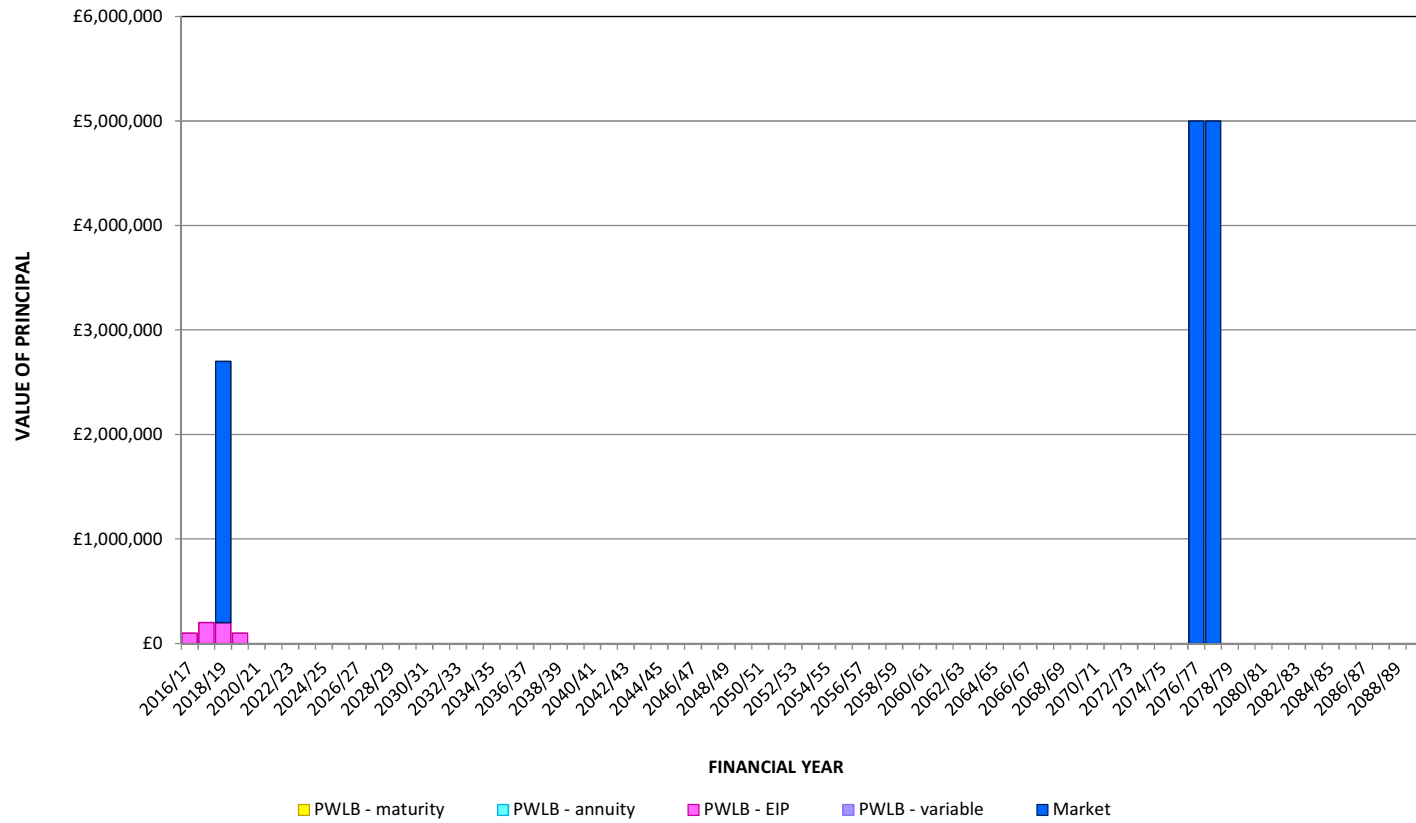
Borrowing generally delayed by LA's due to the "cost of carry"

- Longer term borrowing rates are significantly higher than investment rates
- The cost of carry represents the difference between the two
- Long term borrowing of 2.60% versus investment returns of 0.75% at best (1 year deposit)
- 1.85% cost on £5m = £92,500 per annum
- Most Councils have delayed activity due to this large short term cost
- Investment counterparty risk has also been minimised

- What are the risks to being in this position ?

Debt Maturity Profile

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Questions ?

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