



East Suffolk House, Riduna Park, Station Road,
Melton, Woodbridge, Suffolk, IP12 1RT

Audit and Governance Committee

Members:

Councillor Geoff Lynch (Chairman)
Councillor Edward Back (Vice-Chairman)
Councillor Judy Cloke
Councillor Tony Cooper
Councillor Linda Coulam
Councillor Tess Gandy
Councillor Chris Mapey
Councillor Rachel Smith-Lyte
Councillor Ed Thompson

Members are invited to a **Meeting of the Audit and Governance Committee** to be held in the Deben Conference Room, East Suffolk House, Riduna Park on **Monday, 16 September 2019 at 6:30pm**

An Agenda is set out below.

Part One – Open to the Public

Pages

1 Apologies for Absence and Substitutions

2 Declarations of Interest

Members and Officers are invited to make any declarations of Disclosable Pecuniary or Local Non-Pecuniary Interests that they may have in relation to items on the Agenda and are also reminded to make any declarations at any stage during the Meeting if it becomes apparent that this may be required when a particular item or issue is considered.

3 Minutes

1 - 9

To confirm as a correct record the minutes of the meeting held on 29 July 2019.

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| 4 | Treasury Management Outturn Report for 2018/19 & Mid Year Report for 2019/20 ES/0142
To consider the Treasury Management Outturn Report for 2018/19 and Mid Year Report for 2019/20. | 10 - 22 |
| 5 | Statement of Accounts - An Explanation
To receive a presentation from the Chief Finance Officer and Section 151 Officer. | |
| 6 | Audit and Governance Committee's Forward Work Programme
To consider the Committee's Forward Work Programme. | |
| 7 | Exempt/Confidential Items
It is recommended that under Section 100(a)(4) of the Local Government Act 1972 (as amended) the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Act. | |

Part Two – Exempt/Confidential

- | | | |
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| 8 | Minutes

<ul style="list-style-type: none"> • Information relating to the financial or business affairs of any particular person (including the authority holding that information). | |
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Close



Stephen Baker, Chief Executive

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Minutes of a Meeting of the **Audit and Governance Committee** held in the Conference Room,
Riverside, on **Monday, 29 July 2019 at 6:30 pm**

Members of the Committee present:

Councillor Edward Back, Councillor Tony Cooper, Councillor Linda Coulam, Councillor Tess Gandy,
Councillor Geoff Lynch, Councillor Chris Mapey, Councillor Ed Thompson

Other Members present:

Councillor Maurice Cook

Officers present:

Laura Fuller (Audit Manager), Matt Makin (Democratic Services Officer), Siobhan Martin (Head of Internal Audit), Sheila Mills-James (Corporate Fraud Manager), Hilary Slater (Head of Legal and Democratic Services and Monitoring Officer), Simon Taylor (Chief Finance Officer and Section 151 Officer)

Others present:

Tony Poynton (Ernst & Young LLP)

1 Apologies for Absence and Substitutions

Apologies for absence were received from Councillor Cloke and Councillor Smith-Lyte.
There were no substitutions.

2 Declarations of Interest

No declarations of interest were made.

3a Minutes of the Waveney District Council Audit and Governance Committee meeting held on 7 March 2019

On the proposition of Councillor Back, seconded by Councillor Gandy it was unanimously

RESOLVED

That the Minutes of the Waveney District Council Audit and Governance Committee meeting held on 7 March 2019 be agreed as a correct record and signed by the Chairman.

3b Minutes of the Suffolk Coastal District Council Audit and Governance Committee meeting held on 12 March 2019

On the proposition of Councillor Cooper, seconded by Councillor Thompson it was unanimously

RESOLVED

That the Minutes of the Suffolk Coastal District Council Audit and Governance Committee meeting held on 12 March 2019 be agreed as a correct record and signed by the Chairman.

4 Standards Matters, Declarations of Gifts/Hospitality Received by Members and Officers and Review of Complaints

The Committee received report **ES/0087** of the Leader of the Council and Cabinet Member with responsibility for Resources. The report updated the Committee on declarations of gifts/hospitality received by Members and Officers and included a review and update on Register of Interests for Town and Parish Councillors.

The Monitoring Officer presented the report, referring to the Localism Act 2011 (The Act) and the role of the Committee in maintaining standards. She noted that the Council was the principal authority, under the Act, in respect of any complaint alleging a breach of the Code of Conduct by District, Town, or Parish Councillors. Since 1 April 2019, when East Suffolk Council had come into being, one such complaint had been received, and when investigated the Monitoring Officer had not been able to consider it as such, as it was related to the conduct of a parish council as a whole in terms of its decision making, rather than the conduct of an individual Member.

The Committee was advised that the Monitoring Officer had referred another complaint to the Police as, following correspondence with the parish council in question, she had been of the view that a Member may have taken part in a meeting whilst having a Disclosable Pecuniary Interest (DPI), which was a criminal offence under the Act. The Monitoring Officer said that this was the first instance where she had been required to make such a report since the Act came into force in 2012 and noted that since the report had been written, she had been required to refer a second matter to the Police. Details of both complaints had not been provided in the report as in both cases, there were ongoing Police enquiries.

The Monitoring Officer referred to the register of gifts and hospitality. The Suffolk Code required that Councillors declare gifts and hospitality which they had received that were worth at least £25. These declarations formed part of the Members' Register of Interest form. Officers of the Council were also required declare gifts and hospitality which they had been offered that were worth at least £10, in line with the Council's Officer Code of Conduct; a list of these declarations was contained in Appendix A to the report.

It was noted that under s29 of the Act, the Monitoring Officer was required to establish and maintain a register of interests of members of the Council and for Members of town and parish councils within the authority's area. Under s30(1) of the Act, Members had 28 days from the day of taking office in which to notify the Monitoring Officer of

any DPs and to complete a register of interests form. The Monitoring Officer was pleased to report that all members of East Suffolk Council had met this requirement and, in line with the requirements of the Act, the register of interests was available for public inspection on the Council's website.

The Committee was advised that a new online register of interests form had been developed and launched in time for Local Elections in May 2019. Details of the system had been sent to all Town and Parish Clerks in order for them to set up their Members on it, and Members had been sent follow-up emails, directly, explaining how to use it. The Monitoring Officer confirmed that of the 1,052 Town and Parish Councillors in the District, 940 had completed a register of interests form and 112 had not, which was a return rate of 89%.

The Monitoring Officer considered this to be a good rate at the early stage of the administration but obviously, it could be improved upon.

It was confirmed that correspondence would be sent to the Clerks of town and parish councils where Members had not completed a register of interest form, asking them to remind Members of their requirement to do so. The Monitoring Officer stated that this correspondence would be copied to the relevant Ward Members so that it could be discussed when they visited the town and parish councils in their Wards. It was confirmed that the progress of this work would be reported to future meetings of the Committee.

The Chairman invited questions to the Monitoring Officer.

The Monitoring Officer confirmed that those Members who had not completed a register of interests form were not disqualified from office. However, it was a criminal offence not to complete the form within 28 days of taking office, unless a councillor has a reasonable excuse for not doing so. If any Member was prosecuted for such an offence, and subsequently convicted, they may then be disqualified from office; the Monitoring Officer said that she was aware of only one prosecution that had been brought, nationally, for this offence, since 2012.

A member of the Committee gave an example of where she had been offered theatre tickets, which she had declined, and asked if she should have declared this. The Monitoring Officer advised that Members only needed to declare gifts and hospitality which they had accepted, whereas Officers were required under their Code to declare anything offered that was worth £10 or more.

The Chairman commended the high rate of return of register of interest forms from town and parish councillors and concurred with both the Monitoring Officer's view that this could be improved and the proposed communications to achieve this. He asked that Ward Members be kept informed about this, and further steps to improve the rate of return.

RESOLVED

That the contents of the report be noted.

The Monitoring Officer left the meeting following the conclusion of this item.

5 Indicative Annual Fee Letter 2019/20

The Committee received report **ES/0088** of the Leader of the Council and Cabinet Member with responsibility for Resources. The report was introduced by Councillor Cook, Assistant Cabinet Member for Resources, who advised that Ernst and Young (EY) had issued their indicative annual fee letter for 2019/20.

The audit fee was the first to be issued for East Suffolk Council and was based on the overall level of risk in 2019/20 not being significantly different to the risks from the predecessor Councils in 2018/19. The indicative audit fee had been set at £69,964 for 2019/20, and EY had also indicated that its proposed audit fee for reporting on the housing benefit subsidy claim was £15,829.

Councillor Cook covered each section of the report in detail and noted the savings that have been achieved by the creation of East Suffolk Council. He introduced Mr Poynton from EY, who was present at the meeting.

The Chairman invited questions to Councillor Cook and Mr Poynton.

Mr Poynton confirmed that the fee for reporting on the housing benefit subsidy claim was dependent on case volume.

In response to a question from a member of the Committee, it was confirmed by the Chief Finance Officer that the Council was required to use an external auditor based on the framework set by the PSAA and that EY had been selected from the national scheme, which meant that the Council was unable to go out to tender and seek a local firm. He stated that using EY resulted in significant savings for the Council.

The Chief Finance Officer and Mr Poynton explained that the indicative fees were calculated by assessing historic error rates.

A member of the Committee asked if the fees would be changed by any Brexit impact. The Chief Finance Officer considered that Brexit should not impact the production of the Council's accounts and therefore the overall fee would not be affected.

The Chairman noted the savings made and stated that this was a fantastic achievement. He highlighted the delay in EY being able to audit the 2018/19 accounts and said that the Committee would work closely with EY on this matter. He confirmed that this would result in a delay in the publication of these accounts but assured the Committee that this would not reflect badly on the Council.

The Chief Finance Officer advised that as the audit of the accounts would not be completed by 31 July the Council was required to put out a statement on its website, and he would work with EY to agree wording on why the delay has occurred.

It was noted that EY's lack of resources and staff turnover was the cause of the delay and that it was in the process of training new staff. It was intended to begin the audit at the start of September 2019, with its completion occurring in October 2019, and that

a Special meeting of the Committee would be organised in Mid-November 2019 in order to approve the audited accounts. The Chief Finance Officer noted that the problems experienced by EY were not dissimilar to those experienced by other auditing firms at a national level.

RESOLVED

That the indicative annual fee letter for 2019/20 from Ernst and Young be noted.

The Chief Finance Officer and Mr Poynton both left the meeting following the conclusion of this item.

6 Annual Internal Audit Report 2018/19

The Committee received report **ES/0089** of the Leader of the Council and Cabinet Member with responsibility for Resources.

The Annual Internal Audit Report 2018/19, set out in Appendix A of the report, detailed the work undertaken by the Internal Audit Service for the year 2018/19 in accordance with the plan for the year that had been presented to both Suffolk Coastal and Waveney District Councils in March 2018. The report was presented to the Committee in accordance with its terms of reference.

The report was introduced by Councillor Cook, Assistant Cabinet Member for Resources, who noted the hard work undertaken by the Head of Internal Audit and her team and the substantial savings that had been identified through the work undertaken. He invited the Head of Internal Audit to present the report.

The Head of Internal Audit advised the Committee that she was required to give an opinion, in her annual report, on the adequacy and effectiveness of the Council's systems of governance, risk management, and internal control in the previous financial year. She referred to her opinion at section one of the Annual Internal Report at Appendix A of the report and confirmed that her opinion for 2018/19 was one of reasonable assurance.

The different ratings available were outlined and the Committee was advised that a reasonable rating was a normal one, and that it was rare for an effective assurance to be given.

The comments regarding areas to improve, particularly relating to both contract management and asset management, were brought to the Committee's attention. The Head of Internal Audit noted the improvements in these areas during 2018/19 but stated that further work was required at the time the report was written, and that it would not be prudent to give the service a clean bill of health.

The table at 3.1 of Appendix A to the report, detailing the spread of work completed, was outlined.

The Head of Internal Audit confirmed that she was PSIAS compliant; she was subject to both self-assessment as well as external assessment. She said that it was important

that the Committee knew the Council's Internal Audit Service was up to standard and was confident in the experience and qualifications of its officers.

The Committee's attention was drawn to Appendix D of the Annual Internal Audit report, which outlined areas of work cancelled or deferred. The Head of Internal Audit reported that two of the pieces of work had been cancelled as they were no longer required, and the remainder of work had been deferred.

The Head of Internal Audit highlighted the 20 days in the Internal Audit plan that were at the gift of the Committee should it feel an area was required for review, including increasing scope.

The Chairman invited questions to the Head of Internal Audit.

A member of the Committee sought clarification from the Head of Internal Audit on the ratings available to her for her opinion. She defined the effective rating as being that, under testing, no concerns had been raised. Reasonable was defined as there being some specific control weaknesses but generally adequate and effective, limited was defined as controls being unlikely to provide reasonable assurance, and ineffective was defined as controls not being adequate or appropriate. She advised that this was in line with PSIAS standards and agreed to further qualify this in future reports to the Committee.

In response to another member of the Committee, in reference to the Review of Housing Benefits, the Head of Internal Audit explained that the Anglia Revenues Partnership (ARP) held the core systems for the five different sovereign councils in the ARP; the partnership delivered revenue and benefits services for the Council, but the duty and responsibility of these services remained with the Council, including the responsibility to internally audit the services provided.

It was agreed in 2017 to share out the auditing of the services provided by ARP between the sovereign councils within the partnership, as each had its own Internal Audit Service. Councillor Cook noted that he was the Council's appointee to the ARP Joint Committee, which he attended along with Mr Khan, Strategic Director and Mr Taylor, Chief Finance Officer.

It was confirmed that training on tendering processes would be part of the Council's Member Development Programme.

The Chairman expressed confidence in the Council's Internal Audit Service, noting that it was picking up issues as soon as possible. He considered the change from two councils to a single authority had been challenging and asked what impact this had on the service.

The Head of Internal Audit stated that her service was a small one and had the minimum resources available to carry out its function. She noted her responsibilities as the Council's Data Protection Officer and said that if this work was going to continue, additional resources would be requested. The Chairman asked that any need for additional resources be brought to the Committee's attention as soon as possible.

The Chairman asked for a definition of a joint review. The Audit Manager stated that this was when a review covered the two predecessor councils. Joint reviews would not be necessary now that East Suffolk Council had been created and it was confirmed that the Internal Audit Service had worked as a single team across the predecessor councils prior to their demise.

RESOLVED

That the Head of Internal Audit's Opinion for 2018/19, as set out in Appendix A to the report, had been commented upon.

7 Corporate Fraud Annual Business Report 2018/19

The Committee received report **ES/0090** of the Leader of the Council and Cabinet Member with responsibility for Resources, and the Cabinet Member with responsibility for Housing.

The report provided a summary of the performance of the Corporate Fraud Service covering Suffolk Coastal and Waveney District Councils for the period 1 April 2018 to 31 March 2019. The report was presented to the Committee in compliance with its terms of reference.

The report was introduced by Councillor Cook, Assistant Cabinet Member for Resources, who invited the Head of Internal Audit to present the report.

The Head of Internal Audit noted that the work of the Corporate Fraud Service was delivered by 3.4FTE officers, including the Corporate Fraud Manager who was present at the meeting.

The team cost a total of £188,000 a year and had identified £1.8m in savings. She described the team as being dedicated and noted that a majority of its work was related to housing fraud. A large amount of work had been undertaken regarding building relationships and sharing intelligence with other agencies.

It was highlighted to the Committee that when housing benefit fraud was moved to the Department for Work and Pensions in 2015, many authorities did not retain their Corporate Fraud services. A case was made to both predecessor councils at that time for a Corporate Fraud resource to look at other areas and considered that the service had justified its costs. The team also included financial investigators which increased its skill set.

The Head of Internal Audit referred to the early prevention work undertaken by the team, as it was able to define between genuine applicants who had made an error, against fraudulent claims. She assured the Committee that the service was a supportive one and was also able to react appropriately to any safeguarding issues.

The Chairman invited questions to the officers.

The Corporate Fraud Manager confirmed that more proactive exercises in relation to blue badge fraud would be undertaken and that the team was working alongside Suffolk County Council regarding the impact of the qualifying criteria for a blue badge.

The Head of Internal Audit Service advised that she had been interviewed by the local press regarding the work of the service and that an article should be published soon.

The Chairman applauded the positive results achieved by the Corporate Fraud Service and considered it important that the team was not reduced, as it provided excellent value for money.

RESOLVED

That the performance of the Corporate Fraud Service for the year 2018/19 had been commented upon.

8 Internal Audit Reports Recently Issued

The Committee received report **ES/0091** of the Leader of the Council and Cabinet Member with responsibility for Resources.

The report issued Internal Audit reports to the Committee to enable it to fulfil its terms of reference and invited the Committee to comment upon the contents of the Internal Audit Reports at Appendix A of the report.

The report was introduced by Councillor Cook, Assistant Cabinet Member for Resources, who invited the Head of Internal Audit to introduce the report.

The Head of Internal Audit referred to the Internal Audit Report related to the Joint Review of Bank Reconciliations and General Ledger 2018/19, which gave an effective opinion of assurance. In response to a question from a member of the Committee, she advised that the term feeder systems related to systems feeding into the general ledger, for instance the payment card industry and the IDOX system.

The Head of Internal Audit then referred to the Internal Audit Reports related to Ethics and Culture 2018/19 and the Joint Review of Accounts Receivable 2018/19, which both gave effective opinions of assurance. There were no questions to the Head of Internal Audit regarding these reports.

Members of the Committee commented favourably on the style of the Internal Audit reports.

RESOLVED

That the contents of the Internal Audit reports had been commented upon.

9 Audit and Governance Committee's Forward Work Programme

The Committee reviewed its Forward Work Programme and, in particular, considered and confirmed the items of business that would be postponed due to the delay in EY's audit.

The Chairman confirmed that a Special meeting of the Committee would be confirmed in mid-November 2019 to hear these items. It also confirmed an additional item of business it wished to hear at its meeting scheduled for 6 January 2020.

10 Exempt/Confidential Items

RESOLVED

that under Section 100(a)(4) of the Local Government Act 1972 (as amended) the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Act.

11 Internal Audit Reports Recently Issued

- Information relating to the financial or business affairs of any particular person (including the authority holding that information).

12 Internal Audit: Status of Actions

- Information relating to the financial or business affairs of any particular person (including the authority holding that information).

13a Exempt Minutes of the Waveney District Council Audit and Governance Committee meeting held on 7 March 2019

- Information relating to the financial or business affairs of any particular person (including the authority holding that information).

13b Exempt Minutes of the Suffolk Coastal District Council Audit and Governance Committee meeting held on 12 March 2019

- Information relating to the financial or business affairs of any particular person (including the authority holding that information).

The meeting concluded at 8:28 pm

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Chairman

AUDIT & GOVERNANCE COMMITTEE

Monday 16th September 2019

TREASURY MANAGEMENT OUTTURN 2018/19 AND MID YEAR REPORT 2019/20

EXECUTIVE SUMMARY

1. The Treasury Management Policy Statement for 2018/19 requires an annual report and mid-year report to be produced by the 30th September 2019.
2. The report reviews performance of the treasury management function including prudential indicators in 2018/19 and incorporates a mid-year review of 2019/20.

2018/19 Summary:

- Suffolk Coastal District Council Investments totalled £66.89m as at 31st March 2019 and interest received on investment balances during the year totalled £0.55m.
- Waveney District Council Investments totalled £46.39m as at 31st March 2019 and interest received on investment balances during the year totalled £0.41m.
- Both Councils operated within its approved Prudential Indicator Limits for 2018/19.

2019/20 Summary to date:

- Investments totalled £109.36m as at 31st August 2019.
- Interest received to 31st August 2019 totalled £0.34m.
- The Council has operated within its approved Prudential Indicator Limits to date.

Is the report Open or Exempt?	Open
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Wards Affected:	All Wards in the District
Cabinet Member:	Councillor Steve Gallant Leader of the Council and Cabinet Member with responsibility for Resources Councillor Maurice Cook Assistant Cabinet Member with responsibility for Resources

Supporting Officer:	Simon Taylor Chief Finance Officer 01394 444570 simon.taylor@east-suffolk.gov.uk
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1 INTRODUCTION

- 1.1 Treasury Management in Local Government is governed by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management in the Public Services and in this context is the “management of the Council’s cash flows, its banking and its capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks”. This Council has adopted the Code and complies with its requirements.
- 1.2 The Council approves a strategy report at the beginning of each financial year, which identifies how it proposes to borrow and invest in the light of capital spending requirements, interest rate forecasts and economic conditions. The Cabinet monitors the implementation of the treasury strategy and reports are received quarterly during the year. The Audit & Governance Committee are responsible for ensuring scrutiny of the treasury management activities.
- 1.3 Under the Prudential Code for Capital Finance in Local Authorities, the Council determines at a local level its capital expenditure and can borrow or use alternative financing methods to finance capital spending provided that capital plans are demonstrably affordable, prudent and sustainable. The Code requires prudential indicators to be set and monitored, some of which are limits.
- 1.4 By the end of September each year, councils must report on their treasury management activities that have taken place over the past financial year to Full Council. The remainder of this report summarises the year’s activities and performance and provides an update on the activities that have taken place during the first half of the current financial year.

TREASURY MANAGEMENT OUTTURN 2018/19

2 THE ECONOMY AND INTEREST RATES

- 2.1 After weak economic growth of only 0.2% in Quarter One of 2018, growth picked up to 0.4% in Quarter Two and to a strong 0.7% position in Quarter Three, before falling back to 0.2% in the final quarter. With all the uncertainties over Brexit, this weak growth in the final quarter was as to be expected. With the date for the UK leaving the European Union being put back to 31st October 2019, Quarter One growth in 2019 came in at 0.5%, which was a direct result of stockpiling ahead of the original 31st March 2019 exit day. Growth is therefore expected to cool in Quarter Two of 2019.
- 2.2 The Monetary Policy Committee (MPC) raised the Bank Rate from 0.50% to 0.75% in August 2018, with little surprise that they have abstained from any further increases since then. It is unlikely that there will be any further movement from the Monetary Policy Committee until the uncertainties over Brexit clear. In the event of a disorderly exit, it is likely that the Bank Rate would be cut to support growth.
- 2.3 Nevertheless, the MPC has been having increasing concerns over the trend in wage inflation which peaked at a new post financial crisis high of 3.5%, (excluding bonuses), in the three months to December before falling only marginally to 3.4% in the three months to January. British employers increased their hiring at the fastest pace in more than three years in the three months to January as the country's labour market defied the broader weakness in the overall economy as Brexit approached. The number of people in work surged by 222,000, helping to push down the unemployment rate to 3.9 percent, its lowest rate since 1975. Correspondingly, the total level of vacancies has risen to new highs.

- 2.4 The Consumer Price Index (CPI) has been on a falling trend since peaking at 3.1% in November 2017, reaching a new low of 1.8% in January 2019 before increasing marginally to 1.9% in February. However, in the February and May 2019 Bank of England Inflation Reports, the forecast for inflation over both the two and three year time horizons remained marginally above the MPC's target of 2%.

3 BORROWING

- 3.1 During 2018/19, neither Council entered into any new borrowing arrangements.
- 3.2 Given the large differential between short and longer term interest rates, which is likely to remain a feature for some time, as well as the pressure on Council finances, the debt management strategy sought to lower debt costs within an acceptable level of volatility (interest rate risk). Loans that offered the best value in the prevailing interest rate environment were PWLB variable interest rates loans. This supported the case for maintaining the Council's variable rate debt portfolio.
- 3.3 Given the significant cuts to local government funding putting pressure on Council finances, the strategy followed was to minimise debt interest payments without compromising the longer term stability of the portfolio. The use of internal resources in lieu of borrowing was judged to be the most cost effective means. Waveney District Council's 2018/19 borrowing requirement for the General Fund capital programme was £0.77m for which cash balances were utilised. If the Council would have sought to borrow this amount on a short term one year basis this would have attracted an interest cost of £12,940 at a rate of 1.68%. The average interest amount lost by not having this amount invested would have been £7,700 at 1.0%, therefore making a saving of £5,240. Suffolk Coastal District Council remained debt free during 2018/19 with no borrowing required for the capital programme.
- 3.4 The Waveney District Council debt portfolio for 2018/19 can be seen in the table below and is summarised by £75.98m attributable to the HRA which includes £68.30m of Self-Financing loans taken out in 2011/12 and £11.59m of General Fund loans.

Loans as at 31st March 2019	Principal £m	Rate Range %	Maturity Range (years)
PWLB Fixed Rate Maturity/Equal Instalments of Principal Loans	67.28	3.01 - 8.38	3.0- 42.0
PWLB Variable Rate Maturity Loans	20.29	0.42 – 0.43	1.0 – 4.0
Total	87.57	0.42 - 8.38	1.0 - 42.0

4 INVESTMENT ACTIVITY

- 4.1 Both Council's investment policy for 2018/19 was governed by Ministry of Housing, Communities and Local Government (MHCLG) guidance and implemented in the annual investment strategy approved by the Council on 21st March 2018 for Waveney District Council and the 22nd March 2018 for Suffolk Coastal District Council. This policy set out the approach for choosing investment counterparties and was based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.). The MHCLG Investment Guidance requires local authorities to focus on security and liquidity, rather than yield.

- 4.2 The average cash balances held were £66.61m for Suffolk Coastal District Council and £45.10m for Waveney District Council. Investment income received was £0.55m for Suffolk Coastal District Council and £0.41m for Waveney District Council which exceeded the original planned budget of £0.37m for Suffolk Coastal District Council and £0.28m for Waveney District Council for the financial year 2018/19.

Suffolk Coastal District Council

	Balance at 1 st April 2018	Investment made	Investments repaid	Balance at 31 st March 2019
INVESTMENTS	£m	£m	£m	£m
Term Investments (liquidity & term <60 months)	52.39	358.0	-343.5	66.89

Waveney District Council

	Balance at 1 st April 2018	Investment made	Investments repaid	Balance at 31 st March 2019
INVESTMENTS	£m	£m	£m	£m
Term Investments (liquidity & term <60 months)	41.39	160.50	-155.50	46.39

- 4.3 As at the 31st March 2019 the investment profile of Suffolk Coastal District Council was as follows.

INVESTMENTS	Balance at 31 st March 2019 £m
Liquidity Investments	9.0
Short Term Investments	
September 2019 to May 2019	5.00
October 2018 to April 2019	2.50
December 2018 to December 2019	12.00
November 2018 to May 2019	5.00
January 2019 to January 2020	2.00
December 2019 to June 2020	2.00
January 2019 to April 2019	2.00
January 2019 to May 2019	3.00
February 2019 to May 2019	6.00
March 2019 to June 2019	2.00
March 2019 to March 2020	4.00
March 2019 to July 2020	5.00
Long Term Investments	
October 2018 to October 2020	5.00
November 2017 - onwards	2.39
Total	66.89

As at the 31st March 2019 the investment profile of Waveney District Council was as follows.

INVESTMENTS	Balance at 31st March 2019 £m
Liquidity Investments	13.0
Short Term investments	
July 2018 to July 2019	5.00
September 2018 to May 2019	5.00
October 2018 to April 2019	3.00
November 2018 to May 2019	3.00
December 2018 to June 2019	3.00
January 2019 to April 2019	3.00
January 2019 to July 2019	3.00
March 2019 to May 2019	1.00
March 2019 to July 2019	5.00
Long Term investments	
November 2017 - onwards	2.39
Total	46.39

4.4 Security of capital remained both Councils main investment objective. This was maintained by following each Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2018/19.

4.5 Investments during the year included call accounts, deposits with UK Banks and Building Societies and Local Authorities. During the year there were no investments placed with counterparties outside of the UK.

5 COMPLIANCE WITH PRUDENTIAL INDICATORS

5.1 Both Councils complied with its Prudential Indicators for 2018/19, these were approved on the 22nd March 2018 for Suffolk Coastal District Council and on the 21st March for Waveney District Council. The Prudential Indicators for 2018/19 can be found at Appendix A and B.

TREASURY MANAGEMENT MID YEAR REVIEW 2019/20

6 TREASURY MANAGEMENT STRATEGY AND ANNUAL INVESTMENT STRATEGY

6.1 The East Suffolk Council Treasury Management Strategy Statement (TMSS) for 2019/20 was approved at Shadow Council on 28th January 2019 and there have been no policy changes to date.

7 DAILY CASH MANAGEMENT

7.1 The Council's counterparty list (investment list) is continuously reviewed and updated taking into account published credit rating information, financial accounts, share prices, asset size, Government support and information from the Council's Treasury Advisors, Arlingclose.

8 INVESTMENT PORTFOLIO 2019/20

- 8.1 The Council held £109.36m of investments as at the 31st August 2019; the table below illustrates the maturity of investments over the forthcoming months and the average interest rate achieved on the investment.

	1st April 2019 £m	Average Interest Rate %	31st August 2019 £m	Average Interest Rate %
Call Accounts (Liquidity Funds)	31.0	0.49	7.00	0.40
Notice Accounts (32 & 95 Day)	0	0	3.00	0.85
Term Investments: 3 to 24 months	86.5	0.94	94.50	0.89
Property Investment Fund	4.78	4.69	4.86	4.69

- 8.2 The Council can confirm that the approved limits within the Annual Investment Strategy were not breached at the time of writing the report.

9 ECONOMIC OUTLOOK

- 9.1 Boris Johnson became Prime Minister in July and appears to favour exiting the European Union on 31st October 2019 with or without a deal. It is unlikely the UK will be able to negotiate a different withdrawal deal before the deadline and at the time of the report being written the Prime Minister is planning on suspending Parliament sometime between 9th and 12th September through to the Queen's speech on 14th October 2019. This combined with a potential General Election gives further rise to an unstable outlook for the economy over the next 12 months.
- 9.2 With the downside risks to the UK economy growing and little likelihood of current global trade tensions being resolved imminently with global growth recovering soon thereafter, our treasury advisor Arlingclose's central forecast is for that the Bank of England's MPC will maintain the Bank Rate at 0.75% but will stand ready to cut rates should the Brexit process cause or give rise to more uncertainty for business and consumer confidence and for economic activity.

10 TREASURY MANAGEMENT PRACTICES (TMP'S)

- 10.1 As a backdrop to the Council's approved treasury management policies, the Council also maintains a number of Treasury Management Practices (TMPS) which set out the manner in which the Council seeks to achieve the policies and objectives of the treasury function and how it will manage and control those activities. These were approved at Council in September 2013.
- 10.2 There have been no major changes during 2018/19 and during the first half of 2019/20.
- 10.3 The TMP'S can be viewed within the Finance service area on the Council's intranet page or by contacting the Financial Services Compliance Team.

11 INVESTMENT POLICY

- 11.1 The Council's investment policy has regard to the MHCLG's Guidance on Local Government Investments, Investment Regulations and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes. The Council's investment priorities will be security first, liquidity second, and then return.

12 CREDIT WORTHINESS POLICY

- 12.1 The Chief Finance Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary.
- 12.2 Credit rating information is supplied by Arlingclose, our treasury consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of a possible longer-term change) are provided to officers almost immediately after they occur, and this information is considered before dealing.

Banks 1 - good credit quality – the Council will only use banks which:

- i. are UK banks; and/or
- ii. are non-UK and domiciled in a country which has a minimum sovereign long-term rating of AA+

and have, as a minimum, the following Fitch, Moody's and Standard and Poor's credit ratings (where rated):

- i. Short term – F1
- ii. Long term – A-

13 BANKING ARRANGEMENTS

- 13.1 Banking services for the Council are provided by Lloyds Banks Plc.

14 TREASURY MANAGEMENT ADVISORS

- 14.1 The external treasury advisors for the Council is Arlingclose.

15 HOW DOES THIS RELATE TO THE EAST SUFFOLK BUSINESS PLAN?

- 15.1 The Treasury Management Outturn and Mid-Year report is a CIPFA requirement, the report does not link directly to the vision of the Business Plan, but through ensuring good governance arrangements and security of the Councils investment income this will help to achieve the planned actions set out in the Business Plan.

16 FINANCIAL AND GOVERNANCE IMPLICATIONS

- 16.1 This report is to provide an update of the treasury management governance arrangements and performance for the previous and current year.

17 OTHER KEY ISSUES

- 17.1 The recommendations of this report do not directly affect or impact on the Council's policies, projects, initiatives or actions. Therefore, an Equality Impact Assessment is not required.
- 17.2 No other key issues to be considered.

18 CONSULTATION

- 18.1 There is no requirement upon the Council for consultation.

19 OTHER OPTIONS CONSIDERED

19.1 No other options were considered

20 REASON FOR RECOMMENDATION

20.1 The CIPFA Treasury Management Code requires a report to be produced covering the Council's Treasury Management activities for the former authorities, Suffolk Coastal District Council and Waveney District Council during 2018/19 and a Mid-Year Review of the Treasury Management activities for the successor authority, East Suffolk Council that have taken place during the first half of 2019/20. These reports must be presented to Full Council by 30th September 2019.

RECOMMENDATIONS

1. That the Annual Report on the Council's Treasury Management activity for 2018/19 incorporating the Mid-Year review for 2019/20 be noted.
2. That the Prudential Indicators Outturn position for 2018/19 in Appendix A and B be noted.

APPENDICES

Appendix A	Suffolk Coastal District Council Prudential Indicators Outturn position for 2018/19
Appendix B	Waveney District Council Prudential Indicators Outturn position for 2018/19

BACKGROUND PAPERS – none

Suffolk Coastal District Council - Compliance with Prudential Indicators 2018/19

1 ESTIMATED AND ACTUAL CAPITAL EXPENDITURE

- 1.1 This indicator is set to ensure that the level of proposed investment in capital assets remains within sustainable limits and in particular, to consider the impact on the Council Tax.

	2018/19	2018/19	2018/19
	Estimated £m	In Year Forecast	Outturn £m
Total Capital Expenditure	12.49	8.84	6.66

- 1.2 The £2.18m variance relates to programme delivery being deferred until 2019/20.

2 ESTIMATED AND ACTUAL RATIO OF FINANCING COSTS TO NET REVENUE STREAM

- 2.1 This is an indicator of affordability and demonstrates the revenue implications of capital investment decisions by highlighting the proportion of the revenue budget required to meet the borrowing costs associated with capital spending. The financing costs include existing and proposed capital commitments. Any increase in the percentages requires an increased contribution from the revenue account to meet the borrowing cost.
- 2.2 As the capital programme was fully funded through either capital grants and contributions, capital receipts or from reserves the cost to the revenue stream is Nil.

	2018/19	2018/19
	Estimated %	Outturn %
Ratio of Financing Costs to Net Revenue Stream	0	0

3 CAPITAL FINANCING REQUIREMENT

- 3.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. It takes account of both the borrowing requirement and the minimum revenue provision for debt repayment

	2018/19	2018/19
	Estimated £m	Outturn £m
Capital Financing Requirement	0	0

4 AFFORDABLE BORROWING LIMIT, AUTHORISED LIMIT AND OPERATIONAL BOUNDARY FOR EXTERNAL DEBT

- 4.1 **Authorised Limit:** This is the maximum amount of external debt that can be outstanding at one time during the financial year. The limit, which is expressed gross of investments, is consistent with the Council's existing commitments, proposals for capital expenditure and financing and with its approved treasury policy and strategy and also provides headroom over and above for unusual cash movements. This limit was set at £11m for 2018/19, with the actual total borrowing being nil.

- 4.2 **Operational Boundary:** This limit is set to reflect the Council's best view of the most likely prudent (i.e. not worst case) levels of borrowing activity and was set at £8m for 2018/19 with the actual borrowing amount being nil.

5 UPPER LIMITS FOR FIXED INTEREST RATE EXPOSURE AND VARIABLE INTEREST RATE EXPOSURE

- 5.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The exposures are calculated on a net basis, i.e. fixed rate debt net of fixed rate investments. The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.
- 5.2 As the Council did not borrow during 2018/19 the outturn position was nil.

	2018/19	2018/19
	Estimated %	Outturn %
Upper Limit for Fixed Rate Exposure	100	0
Upper Limit for Variable Rate Exposure	100	0

6 MATURITY STRUCTURE OF FIXED RATE BORROWING

- 6.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.
- 6.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate.

Maturity structure of fixed rate borrowing	Upper limit %	Lower limit %	Actual Borrowing as at 31st March 2019 £m
under 12 months	100	0	0
12 months and within 24 months	100	0	0
24 months and within 5 years	100	0	0
5 years and within 10 years	100	0	0
10 years and within 20 years	100	0	0
20 years and above	100	0	0

- 6.3 No borrowing has been undertaken in 2018/19.

7 TOTAL PRINCIPAL SUMS INVESTED FOR PERIODS LONGER THAN 364 DAYS

- 7.1 The Council invested £5m with a Local Authority for a period of two years from October 2018 to October 2020 at a rate of 1.35%.
- 7.2 The Council has £2.39m invested into a long term property fund.

Waveney District Council - Compliance with Prudential Indicators 2018/19

1 ESTIMATED AND ACTUAL CAPITAL EXPENDITURE

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

	2018/19	2018/19	2018/19
	Estimated £m	In Year Forecast	Outturn £m
Capital Expenditure			
Non-HRA	19.58	5.95	3.19
HRA	19.91	12.12	9.50
Total Capital Expenditure	39.49	18.07	12.69

- 1.2 The £2.76m variance on Non-HRA and the £2.62m HRA variance relates to programme delivery being deferred until 2019/20.

2 ESTIMATED AND ACTUAL RATIO OF FINANCING COSTS TO NET REVENUE STREAM

- 2.1 This is an indicator of affordability and demonstrates the revenue implications of capital investment decisions by highlighting the proportion of the revenue budget required to meet the borrowing costs associated with capital spending. The financing costs include existing and proposed capital commitments. Any increase in the percentages requires an increased contribution from the revenue account to meet the borrowing cost. The variances are due to the reduced capital outturn position compared to what had been budgeted.

	2018/19	2018/19
	Estimated %	Outturn %
Ratio of Financing Costs to Net Revenue Stream		
Non-HRA	16.91	5.94
HRA	37.00	31.00

3 CAPITAL FINANCING REQUIREMENT

- 3.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Council ensures that net external borrowing does not, except in the short term, exceed the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years.
- 3.2 The Council met this requirement in 2018/19.

	2018/19	2018/19
	Estimated £m	Outturn £m
Capital Financing Requirement		
Non-HRA	37.42	37.80
HRA	77.75	77.75
Total	115.17	115.55

4 AFFORDABLE BORROWING LIMIT, AUTHORISED LIMIT AND OPERATIONAL BOUNDARY FOR EXTERNAL DEBT

- 4.1 **Authorised Limit:** This is the maximum amount of external debt that can be outstanding at one time during the financial year. The limit, which is expressed gross of investments, is consistent with the Council's existing commitments, proposals for capital expenditure and financing and with its approved treasury policy and strategy and provides headroom over and above for unusual cash movements. This limit was set at £122m for 2018/19, with the actual total borrowing being £87.57m.
- 4.2 **Operational Boundary:** This limit is set to reflect the Council's best view of the most likely prudent (i.e. not worst case) levels of borrowing activity and was set at £119m for 2018/19 with the actual borrowing amount being £87.57m.
- 4.3 The levels of debt are measured on an ongoing basis during the year for compliance with the Authorised Limit and the Operational Boundary. The Council maintained its total external borrowing and other long-term liabilities within both limits.

5 UPPER LIMITS FOR FIXED INTEREST RATE EXPOSURE AND VARIABLE INTEREST RATE EXPOSURE

- 5.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The exposures are calculated on a net basis, i.e. fixed rate debt net of fixed rate investments. The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	2018/19	2018/19
	Estimated %	Outturn %
Upper Limit for Fixed Rate Exposure	100	77
Upper Limit for Variable Rate Exposure	50	23

6 MATURITY STRUCTURE OF FIXED RATE BORROWING

- 6.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period and in particular in the course of the next ten years.
- 6.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate.

Maturity structure of fixed rate borrowing	Upper limit %	Lower limit %	Actual Borrowing as at 31 March 2019 £m	Percentage of total as at 31 March 2019 %
under 12 months	50	0	0	0
1 year and within 2 years	50	0	0	0
2 years and within 5 years	75	0	3.0	4
5 years and within 10 years	75	0	10.0	15
10 years and within 20 years	75	0	23.28	35
20 years and above	100	0	31.00	46

- 6.3 All borrowing has been taken in conjunction with advice from the Council's Treasury Management Advisors.

7 TOTAL PRINCIPAL SUMS INVESTED FOR PERIODS LONGER THAN 364 DAYS

- 7.1 There were no proposals for the Council to invest sums for periods longer than 364 days.
- 7.2 The Council has £2.39m invested into a long term property fund.