EASTSUFFOLK COUNCIL

Riverside, 4 Canning Road, Lowestoft, Suffolk, NR33 0EQ

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 Conference Room, Riverside, Lowestoft on **Monday, 6 January 2020** 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** To confirm as a correct record the Minutes of the Meeting held on 18 November 2019.	**1 - 7**

Part Two – Exempt/Confidential

Close

Stephen Baker, Chief Executive

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Unconfirmed

Agenda Item 3

EASTSUFFOLK COUNCIL

Minutes of a Meeting of the **Audit and Governance Committee** held in the Deben Conference Room, East Suffolk House, Melton on **Monday, 18 November 2019** at **6.30pm**

Members of the Committee present:

Councillor Edward Back, Councillor Judy Cloke, Councillor Tony Cooper, Councillor Linda Coulam, Councillor Geoff Lynch, Councillor Chris Mapey, Councillor Rachel Smith-Lyte

Other Members present:
Councillor Maurice Cook

Officers present: Sarah Davis (Democratic Services Officer), Siobhan Martin (Head of Internal Audit), Brian Mew (Interim Finance Manager), Julian Sturman (Senior Accountant)

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1 Apologies for Absence and Substitutions

An apology for absence was received from Councillor Gandy. Councillor Byatt attended as her substitute.

2 Declarations of Interest

No declarations of interest were made.

3 Minutes

RESOLVED
That the Minutes of the Audit and Governance Committee meeting held on 29 July 2019 be approved as a true record and signed by the Chairman.

4 Update on Return Rate for Register of Interests

Members were reminded of report ES/0087 which had been presented to the Committee on 29 July 2019. The report had given an update on standards and declarations of interests, including a section about the return rate for Register of Interests forms from Town and Parish Councillors in the East Suffolk area. Under S30(1) of the Localism Act 2011, Members had 28 days from the day of taking office in which to notify the Monitoring Officer (MO) of any Disclosable Pecuniary Interests (DPIs) and to complete a Register of Interests form which meant that those Members elected on 2 May 2019 had until midnight on 3 June 2019 in which to complete their form.

At the July meeting, it had been reported that 124 of the 1052 Town and Parish Councillors in East Suffolk had not returned their Register of Interest form which represented a 12% non-return rate with 88% having returned their form. It was noted that there were currently 1077 Town and Parish Councillors and, of these, only 16 had not returned their form which represented a 1% non-return rate with 99% having returned their form. The Democratic Services Officer reported that Officers were confident that at least 2 of the 16 outstanding forms would be returned shortly and the Head of Legal and Democratic Services would write to the rest with a reminder that it was a criminal offence under S34 of the Localism Act 2011 for Members, without reasonable excuse, to fail to comply with the requirements in S30(1) to notify the MO of their DPIs.

Members were informed that East Suffolk had a higher return rate than other local Districts eg West Suffolk had a return rate of 95%.

The Chairman welcomed the high return rate and suggested that Officers be thanked for their excellent work in proactively pursuing the outstanding forms.

RESOLVED
That the contents of the agenda item be noted and all the Officers involved be thanked for their proactive work in achieving such a high rate of return.

5 Treasury Management Outturn Report for 2018/19 & Mid Year Report for 2019/20

The Committee received the Leader of the Council and Cabinet Member with responsibility for Resources' report ES/0142. Councillor Cook, the Assistant Cabinet Member for Resources, introduced the report by reminding Members that the Treasury Management Policy Statement for 2018/19 required an Annual Report and Mid Year report to be produced by the 30 September 2019. He added that the report reviewed performance of the treasury management function, including prudential indicators in 2018/19 and incorporated a mid year review of 2019/20.

It was noted that in 2018/19:

- Suffolk Coastal District Council investments totalled £66.89m as at 31 March 2019, made up of £50.5m short term investments, £7.39m long term investments with £9m in cash at bank. Interest received on investment balances during the year totalled £0.55m.

- Waveney District Council investments totalled £46.39m as at 31 March 2019, made up of £31m short term investments, £2.39 long term investments and £13m of cash at bank. Interest received on investment balances during the year totalled £0.41m.

- Both Councils had operated within their approved Prudential Indicator Limits for 2018/19.

Members were informed that Suffolk Coastal had remained debt free during this period but the debt portfolio for Waveney was £87.57m of which £77.4m was attributable to the HRA which included £68.30m of Self-Financing loans taken out in 2011/12. The General fund loans totalled £10.17m.

The following summary for 2019/20 to date was also noted:

- Investments totalled £109.36m as at 31 August 2019.
- Interest received to 31 August 2019 totalled £0.34m.
- The Council operated within its approved Prudential Indicator Limits to date.
- The Council had healthy cash balances in 2018/19.

Reference was made to the fact that the Annual Report and Mid Year Report was required to be reported to Full Council by 30 September 2019 and it was noted that, although the documents had been ready in time, there had not been an opportunity to present them as they had to be considered by the Audit and Governance Committee first and the September meeting had been cancelled. It was pointed out that this delay in presenting the documents was evident by the fact that the Economic Outlook section of the report was now out of date and, of course, there were likely to be changes post the election on 12 December 2019.

In relation to the Investment Policy, the Assistant Cabinet Member stated that consideration was given in all decision making to security first, liquidity second and yield/return third to ensure that the Council did not lose money and had enough cash. He added that the main objective was to have enough money but this was only possible once we were satisfied that security and liquidity were in place.

Clarification was sought on when investments were looked at to ensure that they remained ethical and the Assistant Cabinet Member responded that funds were constantly under review with advice sought from the Council's Treasury Advisor, Arlingclose on borrowing and if an investment became inappropriate the Council could look to switch.

A query was raised as to why the loan figures had reduced and the Assistant Cabinet Member reported that the figures were reviewed constantly as loans were paid off throughout the year and also investments could come to maturity during that period. He reassured Members that, if it was feasible to repay loans from reserves, the Council would do so.

The Chairman suggested that, in future, a third column be added to the table on page 14, paragraph 4.3 to show the percentage return so that Members could make further comparisons. He also suggested that the Committee might want to look at the long term investments in more detail at a future meeting to understand why, in particular, the Council was only receiving a small increase in the interest rate on its 3-24 month investments.

In addition, the Chairman queried why more money was not being invested in the Property Investment Fund given it was giving a 4.69% interest rate which was a much better rate of return than the other investments. The Assistant Cabinet Member pointed out that, whilst it was likely extra funds would be invested in the Property Fund, having more money in one investment also increased the risk.

A query was raised in relation to the Council's banking arrangements and the Assistant Cabinet Member reported that the contract would be reviewed when it expired in 2 years' time.

RESOLVED

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 & B be noted.

6 Internal Audit: Revised Internal Audit Plan 2019-20

The Committee received the Leader of the Council and Cabinet Member with responsibility for Resources' report ES/0191. Councillor Cook, the Assistant Cabinet Member for Resources explained that the report presented a proposed revised Internal Audit Plan for 2019-20 and it was noted that relevant Heads of Service had been informed of the amendment to the Plan where it affected their area. Members were reminded that the Internal Audit Service acted in accordance with the Accounts and Audit Regulations (2015) and aimed to follow the Public Sector Internal Audit Standards (2016) and Local Government Application Note (2013). The report had been prepared in accordance with the Audit Charter and was being presented to Members in accordance with their terms of reference which stipulated that the Audit and Governance Committee was to "approve, (but not direct), internal audit's work plan" and "to promote the value of the audit process".

The Head of Internal Audit explained that, despite advertising twice since April 2019, it had been difficult to recruit a suitably qualified experienced Senior Auditor resulting in a shortfall in resources of approximately 185 days. She had, therefore, used a risk based approach to review and revise the Plan by deferring the following assurance audits into the 2020-21 Plan:

- Payroll (including recruitment)
- Treasury Management
- Income (Cash) and Banking
- Commercial Rents
- Budgetary and Data Control
- Declaration of Interests
- Asset Management Follow Up (Part 2)
- Organic Green Waste

Members were informed that other Local Authorities were having similar issues because there was a lack of Senior Auditors available and it was pointed out that the external Auditors had given staffing levels as one of the reasons there was a delay in approving the accounts. The Head of Internal Audit stated that, because of the problems recruiting a Senior Auditor, she was now thinking of recruiting an Auditor but obviously they would need much more support. She acknowledged that, given it was already a lean team, it was clear to see the impact the reduction in resources had had.

Clarification was sought on whether this change to the Plan would delay the audit on Asset Management and the Head of Internal Audit confirmed that it would not as her Team was already carrying out an audit for this Service which was additional to their overdue recommendations.

Reference was made to the proposal to defer and merge the audit for Income (Cash) and Banking and it was queried whether or not monitoring would still take place in the meantime, particularly in relation to Council credit cards. The Head of Internal Audit confirmed that Finance would continue monitoring and carefully checking any high risk elements such as these. She added that the Council received national alerts about any frauds or scams which could include corporate credit cards and Officers would then look at the Council's internal processes.

The Officers were thanked for doing what they could to prevent against fraudulent activities and the point was made that it could not be helped if trained audit staff were not available. It was suggested that it was important for the public to be notified via the Council's website of any frauds/scams if they were also at risk. The Chairman acknowledged that there might be an impact on the team's capacity if they had to train someone up for a couple of years and he requested, therefore, that the Head of Internal Audit keep the Committee informed, especially given that Members might have to make adjustments to the Plan to allow that to happen.

RESOLVED

That the revisions made to the Annual Internal Audit Plan 2019-20 be noted and approved.

7 Internal Audit Reports Recently Issued

The Committee received the Leader of the Council and Cabinet Member with responsibility for Resources' report ES/0192. Councillor Cook, the Assistant Cabinet Member for Resources introduced the report which gave details of recently issued Internal Audit reports in relation to Disabled Facilities Grants (DFG) Certification and Framlingham Connected Communities Pilot Scheme Grant Claim Form.

DFG Certification

The Committee was reminded that DFGs were a means tested grant paid to disabled residents for adaptations to their homes. Suffolk County Council was responsible for the function but the funding was devolved to District Councils to administer at a local level.

It was noted that Suffolk Coastal and Waveney District Councils had received £1,590,240 of funding in 2018/19 with Grant payments totalling £1,678,672 and, as at 2 September 2019, committed funds totalled £252,584.

The Head of Internal Audit clarified that the objective of the audit had been to verify that the Certification process for DFGs in 2018/19 had been administered in accordance with Grant conditions determined by central Government eg did the money arrive as it should and did we use it correctly, rather than being about the actual works carried out. Members were informed that all the Grants reviewed had been administered in accordance with the Grant conditions and the correct Grant allocation had been received by Suffolk Coastal and Waveney District Councils. She concluded that no recommendations had been raised and Audit had deemed that the control adequacy was “effective”.

Framlingham Connected Communities Pilot Scheme Grant Claim Form

The Head of Internal Audit reported that this review had been carried out at the request of the Strategic Director and Head of Communities and was undertaken as part of the Audit Team’s consultancy support for internal Services, rather than the normal assurance work. She added that the audit would be reported as an addition to the 2019/20 risk-based Internal Audit Plan approved by the Audit and Governance Committee at Suffolk Coastal on 12 March and Waveney District Council on 7 March 2019.

Members noted the objectives for the review. It was explained that the claim form for 2019/20 had been reviewed against best practice claim forms and terms and conditions. The Council did not have to comply with any external conditions as it was an internally funded scheme. It was clarified that the review did not assess the application process, awarding criteria or reporting and monitoring of the scheme. The Head of Internal Audit referred Members to the report which detailed a list of recommendations made in relation to the grant claim form.

The Chairman stated that, given DFGs amounted to a considerable amount of money for the Council, it was great to see that an effective audit had been carried out on the grant claim form to ensure it was fit for purpose. He added that it was also important and useful for Committee Members to see the variation of work undertaken by Internal Audit.

RESOLVED
That the contents of the Internal Audit Reports in relation to Disabled Facilities Grant (DFG) Certification and the Framlingham Connected Communities Pilot Scheme Grant Claim Form be noted.

8 Audit and Governance Committee's Forward Work Programme

The Committee reviewed its Forward Work Programme and the Chairman reported that there might need to be an extra meeting on 30 March 2020 to consider the Accounts which had been postponed due to the delay in EY’s audit. Members were asked to speak to the Chairman or Vice-Chairman if they had any additional items they wanted the Committee to consider.

RESOLVED
That the Work Programme, including the possible additional Committee date on 30 March 2020, be approved.

9 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.

10 Exempt Minutes

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

11 Internal Audit: Status of Actions

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

The meeting concluded at 7.30pm.

…………………………………………..
Chairman

Agenda Item 4

ES/0254

AUDIT AND GOVERNANCE COMMITTEE

Monday 6 January 2020

PROPOSED CHANGES TO THE EAST SUFFOLK COUNCIL CONSTITUTION

EXECUTIVE SUMMARY

1. All Councils must have a written Constitution which includes its standing orders, code of conduct, and such other documents as the Council considers to be appropriate. The East Suffolk Council's (ESC) Constitution was approved by the Shadow Council for East Suffolk on Monday 28 January 2019 – Report REP 29(SH).

2. The Constitution sets out the Council's governance arrangements. Any changes to the Constitution must be approved by this Committee and Full Council, as required by the Constitution.

3. This report proposes some changes to the Constitution and asks that they be recommended to Full Council for approval.

Is the report Open or Exempt?	Open

Wards Affected:	All

Cabinet Member:	Councillor Steve Gallant, Leader of the Council

Supporting Officers:	Hilary Slater Head of Legal and Democratic Services 01394 444336 Hilary.slater@eastsuffolk.gov.uk Philip Ridley Head of Planning and Coastal Management 01394 444432 Philip.Ridley@eastsuffolk.gov.uk

1 INTRODUCTION

1.1 The ESC must have a written Constitution which has to include its standing orders, code of conduct and such other documents as the ESC considers to be appropriate. (S37 of the Local Government Act 2000).

1.2 The Council drafted a new Constitution when the ESC was created, on 1 April 2018. The Constitution was approved by the Shadow Council for East Suffolk on Monday 28 January 2019 – report reference REP 29(SH) refers.

1.3 It was recognised by the Shadow Authority that the Constitution would need to be reviewed, to fit the working practices of the newly formed ESC. This report proposes some changes to the Constitution.

1.4 Part 2 of the ESC Constitution outlines the Council's functions and responsibilities. Paragraph 2.1 of Section B of this part of the Constitution details specific functions that are reserved for Council and states that one of these functions is changing the Constitution. In addition, Paragraph 10.3 of Part 1 of the Constitution states that the Audit and Governance Committee (AGC) has responsibility to advise the Council on substantive changes to the Constitution. Any substantive changes to the Council's decision-making arrangements and committee structure have to be considered by the AGC which will recommend changes to the Full Council. The Monitoring Officer has authority to make minor amendments and corrections to the Constitution. The Leader may change Cabinet Portfolios and delegations.

1.5 This report proposes changes to the Constitution which the Monitoring Officer does not consider to be "minor amendments" and which, therefore, need to be considered by the AGC, and if accepted, be recommended to Council for approval.

2 PROPOSED CHANGE 1 TO THE CONSTITUTION

2.1 The ESC's Scrutiny Committee (SC) works to some Scrutiny Procedure Rules (SPRs) which are set out in section 4 of the Constitution. It says at paragraph 5.1 on page 158 of the Constitution, in the SPRs, that

"the Chairman and the Vice-Chairman of the Scrutiny Committee shall be elected by the voting Members of the Committee at its first meeting after the Annual Meeting".

2.2 This is incorrect, as the Chairman and Vice Chairman of each of the Council's Committees is elected at the Annual Meeting of the ESC, in May of each year. This is a mistake which ought to be amended to avoid any confusion or lack of clarity. The proposed change is so that paragraph 5.1 of the SPRs reads; -

"the Chairman and the Vice-Chairman of the Scrutiny Committee shall be elected by the Full Council at its Annual Meeting".

3 PROPOSED CHANGE 2 TO THE CONSTITUTION

3.1 In the Monitoring Officer (MO) Protocol, which is found in Part 4 of the Constitution, it is clear that in the absence of the MO, the Deputy MO can act in his or her place. The Chief Finance Officer (CFO), like the MO, is a statutory post and each Council must appoint one of its Officers to fulfil this role. Some of the CFO's responsibilities, like the MO's responsibilities, are personal to the Officer who carries out that role.

3.2 In the absence of the CFO, it would be useful to include a provision in the Constitution that the Deputy CFO can act in the CFO's place, if he or she is absent.

3.3 The Finance Procedure Rules (FPRs) are set out in Part 3 of the Constitution. Paragraph 1.1 of the FPRs sets out what the role of the CFO is. It is proposed that the following be added to paragraph 1.1 of the FPRs, as a new, sub-paragraph 1.1.3; -

"1.1.3 The Chief Finance Officer will appoint a deputy and keep them briefed on emerging issues. The Deputy will act in place of the Chief Finance Officer if the Chief Finance Officer is absent or unable to act due to conflict or other relevant issues".

4 PROPOSED CHANGE 3 TO THE CONSTITUTION

4.1 Part 2 of the Constitution sets out the functions and responsibilities of the Council, and explains, in Section B, paragraph 3, what is in the Council's Budget and Policy Framework (BPF). The BPF comprises a number of documents that must be approved by the Council itself, including the budget and the Development Plan, for example. The list of BPF documents is at paragraph 3.5 of Section B. It sets out what the document is, and what the decision-making route is for each, before it is approved by the Council. Included in the list is the "Investment Strategy", and it says that this document goes to "Scrutiny/Cabinet" before going to Council for approval.

4.2 Stating that the Investment Strategy goes to the SC appears to be a mistake in the Constitution. CIPFA guidance about the formulation of the Treasury Management and Investment Strategy states that the policy needs to go to the AGC and not the SC. Indeed, it has never been presented to the SC, previously. However, the Investment Strategy was always taken to the respective AGCs of both the former Suffolk Coastal District Council, and the Waveney District Council.

4.3 Therefore, the BPF needs to be updated to change the responsibility for approving the Investment Strategy from the SC to the AGC. It is proposed that in the fifth line of the table at paragraph 3.5 of Section B of Part 2 of the Constitution, in relation to the Investment Strategy;

"Scrutiny/Cabinet" be changed to "Audit and Governance Committee/Cabinet"

5 PROPOSED CHANGE 4 TO THE CONSTITUTION

5.1 "The Code of Good Practice/Guidance for Members-Planning and Rights of Way" (the Code) is found in Part 4 of the Constitution. It sets out a range of advice for Members who are considering planning applications, or applications to divert public rights of way. As the Code is part of the Constitution, any proposed changes to it need to be considered and commented upon by the AGC and be approved by Full Council. Some changes to the Code have been proposed by Officers. These changes relate to site visits which might be undertaken by the Members of the Planning Committee North, or the Planning Committee South. Appendix A to this report sets out what the Code says, at paragraph 7.13, about site visits. The proposed changes to paragraph 7.13 are set out at Appendix B to this report. Note that the proposed changes have also been considered by the Strategic Planning Committee (SPC) at its meeting on 9 December 2019. The SPC approved the proposed changes and recommended their approval to the AGC and Full Council.

5.2 The proposed amendments are minor in nature. They seek to ensure that site visits are purely factual meetings, provided to give Members a better understanding of a site, prior to the consideration by either of the Planning Committees of any application in relation to it. The original wording suggested that the site visits were conducted as full meetings of the Committee, where the public had rights to address the Committee whilst on site. What was in the Code did not reflect accurately with how site visits were, and are, conducted in reality.

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

6.1 The Council's Constitution is a key governance document which sets out how the Council operates, and how it carried out its functions and responsibilities. How the Council operates is fundamental to how it carries out and delivers its East Suffolk Business Plan. It is fundamental to how it achieves the prongs in the Business Plan about the economy, financial self-sufficiency and growth. The Council's Constitution needs to be up to date and accurate, to reflect its business practices and procedures.

6.2 An up to date Constitution ensures that the Council operates properly, in accordance with the law and good practice. The Constitution needs to be up-to-date and to reflect the Council's current practises, in order to safeguard the decision-making processes of the Council, overall, and to ensure that its business aims are met.

7 FINANCIAL AND GOVERNANCE IMPLICATIONS

7.1 These suggested changes have been picked up since the Council began working to its new Constitution, by various Officers. It is considered that the additions or changes to the wording will make the constitution clearer for Officers, Members and the public, alike. Therefore, they will assist good governance, whilst having no direct financial implications or costs.

8 OTHER KEY ISSUES

8.1 An equality impact assessment (EIA) has not been carried out, in relation to this report. The changes proposed relate to the internal workings of the Council and are not considered to impact on the services which the Council offers, directly, to the public. They are for clarification or correction, and therefore, an EIA was not considered to be necessary.

9 CONSULTATION

9.1 None.

10 OTHER OPTIONS CONSIDERED

10.1 Not to make the changes would not accurately reflect the working practices of the Council in its constitution.

11 REASON FOR RECOMMENDATION

11.1 To ensure that the Council's Constitution is up to date, and accurately reflects the Council's working practices and procedures.

RECOMMENDATIONS
That the Committee approves the proposed changes to the Constitution, as set out in this report, and recommends them to Full Council for approval.

APPENDICES	
Appendix A	Paragraph 7.13 of the Code as originally drafted
Appendix B	Paragraph 7.13 with proposed changes shown with red tracking

BACKGROUND PAPERS – None

Extracted from pages 192-193 of the East Suffolk Council Constitution

7 SITE VISITS

7.1 All sites are investigated by Officers as part of the application process. However, there may be circumstances when Members will wish to visit specific sites, for example, to understand local conditions and the relationship of a proposed development or rights of way proposal and the surrounding area, where these features cannot be assessed from the submitted drawings, illustrative material or from outside the site.

7.2 Formal site visits will be held when there is a clearly identified material benefit for holding one and the Planning Referral Panel agrees with the relevant Planning Officer that there is a need to do so to provide a better understanding of the proposals or Planning Committee so requests that a visit be held.

7.3 All Members of the relevant area Planning Committee (including substitutes who may attend at a subsequent meeting) will be invited to attend the site visit, together with the ward Member or ward Members. Where a proposal would have a significant effect on an adjoining ward, the adjoining ward Members will also be invited.

7.4 All Members attending formal site visits by the Planning Committee shall be accompanied by an appropriate Officer of the Council.

7.5 The site visit is not part of the consideration of the merits of an application and therefore public rights to attend the meeting do not apply. However, a representative of the town or parish council will be invited to the site visit along with the applicant or his / her agent.

7.6 If access to private land is necessary, then Officers will secure the prior agreement of the landowner.

7.7 The purpose of the site visit is fact finding. Officers will be able to point out relevant features of the site and surroundings. Members will be able to see the physical features of the site and ask questions through the Chairman or the Officer to seek clarification. A written record will be kept of the site visit and placed on the planning file.

7.8 No discussion of the merits of the case will be permitted, and all questions from Members will be carried out through the Chairman or, at the Chairman's discretion, directed at the relevant Officer.

7.9 The Chairman may ask the applicant (or agent), the representative of the town or parish council, or the owner on whose property the site visit is being conducted if there are any parts of the site that have not been visited that they consider should be seen by the Members. The Chairman will then determine as to whether to accede to any requests for that part of the site or area to be visited.

7.10 The visiting party will stay together as a group. No lobbying by applicants, town or parish council representatives or objectors will be allowed. If an applicant or group persists in attempting to lobby, the Chairman may determine to curtail the site visit and return on another occasion.

7.11 The Members of the Planning Committee, when on site visits, should not make any comments that could create an impression to an outside party that they had already formed a firm position on the merits of the application. The decision on the application should not be made until the formal meeting of the Planning Committee and the Members will have before them all the necessary information to be able to make an informed decision. There may be occasions when questions raised by Members have not been able to be answered or require further investigation in which event Officers will pursue these matters and report back on them to the Planning Committee.

7.12 Exceptionally, a Member of the Planning Committee may not be able to attend a site visit or may wish to see a site that is the subject of a report to the Committee. When visiting sites on their own, Members should normally seek only to view the site from a public area and should deal with any lobbying that may occur at the visit in accordance with Section 5 of this Code of

Practice. Members may wish to seek advice before undertaking unaccompanied site visits that necessitate access to private property.

7.13 Any site meetings will follow these procedures:

- Relevant Officer will be invited to set out briefly
  - why it was resolved necessary to visit the site
  - the facts of the application
  - the views of consultees as relevant to the visit
- Any specialist advisers present (e.g. Highway Authority) will be invited to indicate their view of the proposals
- Chairman will invite the applicant/agent to explain any aspect of the application
- Town/Parish Council representative(s) as consultees will be invited to speak if they wish
- Ward Member will be invited to speak – to point out relevant features of the site or the surrounding area or to ask questions about the proposal
- Committee Members will be invited to ask questions
- Planning Officer will be given the opportunity to ask questions to seek clarification of any issues
- Any other person(s) present will be given the opportunity to speak
- Chairman will close discussion part of the proceedings and invite Members to inspect the site/the area in more detail
- The order of presentations will generally be adhered to but the Chairman will have the right to vary from these guidelines if circumstances warrant. The Chairman's decision will be final.

Extracted from pages 192-193 of the East Suffolk Council Constitution

7 **SITE VISITS**

7.1 All sites are investigated by Officers as part of the application process. However, there may be circumstances when Members will wish to visit specific sites, for example, to understand local conditions and the relationship of a proposed development or rights of way proposal and the surrounding area, where these features cannot be assessed from the submitted drawings, illustrative material or from outside the site.

7.2 Formal site visits will be held when there is a clearly identified material benefit for holding one and the Planning Referral Panel agrees with the relevant Planning Officer that there is a need to do so to provide a better understanding of the proposals or Planning Committee so requests that a visit be held.

7.3 All Members of the relevant area Planning Committee (including substitutes who may attend at a subsequent meeting) will be invited to attend the site visit, together with the ward Member or ward Members, representatives of the town or parish council(s), and the applicant or their agent. Where a proposal would have a significant effect on an adjoining ward, the adjoining ward Members will also be invited. Any technical experts will be invited if required.

7.4 All Members attending formal site visits by the Planning Committee shall be accompanied by an appropriate Officer of the Council.

7.5 The site visit is not part of the consideration of the merits of an application and therefore public rights to attend the meeting do not apply. ~~However, a representative of the town or parish council will be invited to the site visit along with the applicant or his / her agent.~~

7.6 If access to private land is necessary, then Officers will secure the prior agreement of the landowner for both Members, Officers and any third parties.

7.7 The purpose of the site visit is fact finding. Officers will be able to point out relevant features of the site and surroundings. Members will be able to see the physical features of the site and ask questions through the Chairman or the Officer to seek clarification. A written record will be kept of the site visit and placed on the planning file.

7.8 No discussion of the merits of the case will be permitted, and all questions from Members will be carried out through the Chairman or, at the Chairman's discretion, directed at the relevant Officer.

7.9 The Chairman may ask the applicant (or agent), the representative of the town or parish council, or the owner on whose property the site visit is being conducted if there are any parts of the site that have not been visited that they consider should be seen by the Members. The Chairman will then determine as to whether to accede to any requests for that part of the site or area to be visited.

7.10 The visiting party will stay together as a group. No lobbying by applicants, town or parish council representatives or objectors will be allowed. If an applicant or group persists in attempting to lobby, the Chairman may determine to curtail the site visit and return on another occasion.

7.11 The Members of the Planning Committee, when on site visits, should not make any comments that could create an impression to an outside party that they had already formed a firm position on the merits of the application. The decision on the application should not be made until the formal meeting of the Planning Committee and the Members will have before them all the necessary information to be able to make an informed decision. There may be occasions when questions raised by Members have not been able to be answered or require further investigation in which event Officers will pursue these matters and report back on them to the Planning Committee.

7.12 Exceptionally, a Member of the Planning Committee may not be able to attend a site visit or may wish to see a site that is the subject of a report to the Committee. When visiting sites on their own, Members should normally seek only to view the site from a public area and should deal with any lobbying that may occur at the visit in accordance with Section 5 of this Code of

Practice. Members may wish to seek advice before undertaking unaccompanied site visits that necessitate access to private property.

7.13 Any site meetings will follow these procedures:

- The Planning Officer will make a verbal presentation of the application, the site and its context. Where appropriate Officers will have copies of relevant documentation to aid the visit to aid their presentation and the visit.
- Any questions that Members have regarding the site or the development will be made through the Chairman of the Committee only.
- There is no right for third parties to address the Committee unless at the specific request of the Chairman of the Committee.
- ~~Relevant Officer will be invited to set out briefly~~
  - ~~why it was resolved necessary to visit the site~~
  - ~~the facts of the application~~
  - ~~the views of consultees as relevant to the visit~~
- ~~Any specialist advisers present (e.g. Highway Authority) will be invited to indicate their view of the proposals~~
- ~~Chairman will invite the applicant/agent to explain any aspect of the application~~
- ~~Town/Parish Council representative(s) as consultees will be invited to speak if they wish~~
- ~~Ward Member will be invited to speak – to point out relevant features of the site or the surrounding area or to ask questions about the proposal~~
- ~~Committee Members will be invited to ask questions~~
- ~~Planning Officer will be given the opportunity to ask questions to seek clarification of any issues~~
- ~~Any other person(s) present will be given the opportunity to speak~~
- ~~Chairman will close discussion part of the proceedings and invite Members to inspect the site/the area in more detail~~

~~The order of presentations will generally be adhered to but the Chairman will have the right to vary from these guidelines if circumstances warrant. The Chairman's decision will be final.~~

Agenda Item 5
ES/0235

AUDIT & GOVERNANCE COMMITTEE

Monday 6th January 2020

TREASURY MANAGEMENT STRATEGY STATEMENT FOR 2020/21 & TREASURY MANAGEMENT INVESTMENT STRATEGY FOR 2020/21

EXECUTIVE SUMMARY

1. This report sets out the Council's Treasury Management Strategy for 2020/21 and the Treasury Management Investment Strategy for 2020/21 and covers:
   - the current treasury position;
   - treasury indicators which limit the treasury risk and activities of the Council;
   - prospects for interest rates;
   - the borrowing strategy; and
   - the investment strategy
2. The report recommends that the Treasury Management Strategy for 2020/21 and the Treasury Management Investment Strategy for 2020/21 be reviewed and commented upon and recommended for approval.

Is the report Open or Exempt?	Open

Wards Affected:	All Wards across East Suffolk

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 and Section 151 Officer 01394 444570 simon.taylor@eastsuffolk.gov.uk

1 INTRODUCTION

1.1 Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

1.2 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

2 TREASURY MANAGEMENT STRATEGY STATEMENT FOR 2020/21

2.1 The strategy for 2020/21 set out in Appendix A covers:

Treasury management issues:

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy; and
- the investment strategy.

3 HOW DOES THIS RELATE TO EAST SUFFOLK BUSINESS PLAN?

3.1 The Treasury Management Strategy Statement 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 Council's investment income this will help to achieve financial self-reliance and the planned actions set out in the Business Plan.

4 FINANCIAL AND GOVERNANCE IMPLICATIONS

4.1 Security of the Council's cash is the over-riding consideration in setting the Treasury Management Strategy Statement. The Council is constantly receiving advice from its external Treasury Advisors, Arlingclose, with regard to the creditworthiness of financial institutions in order to inform investment decisions.

4.2 The Council's banking provider is Lloyds Bank Plc.

5 REASON FOR RECOMMENDATION

5.1 The Local Government Act 2003 requires the Council to set out its Treasury Management Strategy and Investment Strategy in advance of each financial year. These strategies set out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

RECOMMENDATIONS

1. That the Audit & Governance Committee reviews, comments upon, and recommends the Treasury Management Strategy Statement and the Treasury Management Investment Strategy for 2020/21 to Cabinet and Full Council for approval.

APPENDICES	
Appendix A	Treasury Management Strategy Statement 2020/21
Appendix B	Treasury Management Investment Strategy 2020/21

BACKGROUND PAPERS – none

Treasury Management Strategy Statement 2020/21

Introduction

Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

Investments held for service purposes or for commercial profit are considered in the Investment Strategy.

External Context

Economic background: The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Councils treasury management strategy for 2020/21.

UK Consumer Price Inflation (CPI) for October registered 1.5% year on year, a 0.2% reduction from the previous month. Core inflation, which excludes the more volatile components, rose to 1.7% from 1.5% in August and has remained steady at this rate through September and October. The most recent labour market data for the three months to September 2019 showed the unemployment rate ticked back up to 3.8% while the employment rate was 76%, just below recent record-breaking highs. The headline three-month average annual growth rate for pay was 3.8% in September as wages continue to rise steadily. In real terms, after adjusting for inflation, pay growth increased 1.8%.

Gross Domestic Product (GDP) growth rose by 0.3% in the third quarter of 2019 from -0.2% in the previous three months with the annual rate falling further below its trend rate to 1.0% from 1.2%. Services and construction added positively to growth, by 0.6% and 0.4% respectively, while production was flat and agriculture recorded a fall of 0.2%. Looking ahead, the Bank of England's Monetary Policy Report (formerly the Quarterly Inflation Report) forecasts economic growth to pick up during 2020 as Brexit-related uncertainties dissipate and provide a boost to business investment helping GDP reach 1.6% in Q4 2020, 1.8% in Q4 2021 and 2.1% in Q4 2022.

The Bank of England maintained Bank Rate at 0.75% in November following a 7-2 vote by the Monetary Policy Committee (MPC). Despite keeping rates on hold, MPC members did confirm that if Brexit uncertainty drags on or global growth fails to recover, they are prepared to cut interest rates as required. Moreover, the downward revisions to some of the growth projections in the Monetary Policy Report suggest the Committee may now be less convinced of the need to increase rates even if there is a Brexit deal.

Growth in Europe remains soft, driven by a weakening German economy which saw GDP fall -0.1% in Q2 and is expected to slip into a technical recession in Q3. Euro zone inflation was 0.8% year on year in September, well below the European Central Bank's (ECB) target of 'below, but close to 2%' and leading to the central bank holding its main interest rate at 0% while cutting the deposit facility rate to -0.5%. In addition to maintaining interest rates at ultra-low levels, the ECB announced it would recommence its quantitative easing programme from November.

In the US, the Federal Reserve began easing monetary policy again in 2019 as a pre-emptive strike against slowing global and US economic growth on the back on of the ongoing trade war with China.

At its last meeting the Federal Reserve cut rates to the range of 1.50-1.75% and financial markets expect further loosening of monetary policy in 2020. US GDP growth slowed to 1.9% annualised in Q3 from 2.0% in Q2.

Credit outlook: Credit conditions for larger UK banks have remained relatively benign over the past year. The UK's departure from the European Union was delayed three times in 2019 and while there remains some concern over a global economic slowdown, this has yet to manifest in any credit issues for banks. Meanwhile, the post financial crisis banking reform is now largely complete, with the new ringfenced banks embedded in the market.

Metro Bank and TSB Bank hit the news headlines in 2019 both suffering adverse publicity and falling customer numbers.

Looking forward, the potential for a "no-deal" Brexit and/or a global recession remain the major risks facing banks and building societies in 2020/21 and a cautious approach to bank deposits remains advisable.

Interest rate forecast: The Council's treasury management adviser, Arlingclose, is forecasting that Bank Rate will remain at 0.75% until the end of 2022. The risks to this forecast are deemed to be significantly weighted to the downside, particularly given the need for greater clarity on the post Brexit transition period and the continuing global economic slowdown. The Bank of England, having previously indicated interest rates may need to rise if a Brexit agreement was reached, stated in its November Monetary Policy Report and its Bank Rate decision (7-2 vote to hold rates) that the MPC now believe this is less likely.

Gilt yields have risen but remain at low levels and only some very modest upward movement from current levels are expected based on Arlingclose's interest rate projections. The central case is for 10-year and 20-year gilt yields to rise to around 1.00% and 1.40% respectively over the time horizon, with broadly balanced risks to both the upside and downside. However, short-term volatility arising from both economic and political events over the period is a near certainty.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at Annex A.

For the purpose of setting the budget, it has been assumed that new treasury management investments will be made at an average rate of 0.80%, and that new long-term loans will be borrowed at an average rate of 2.77%.

Local Context

On 30th November 2019, the Council held £77.41m of borrowing and £120.82m of investments. This is set out in further detail at Appendix B. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. The Council expects to comply with this recommendation during 2020/21 and in the subsequent years.

Borrowing Strategy

The Council currently holds £77.41 million of loans, a decrease of £10.16 million on the previous year which is due to £10 million of variable rate loans being due for redemption. The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £153 million.

Objectives: The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2020/21 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

Alternatively, the Council may arrange forward starting loans during 2020/21, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. In addition, the Council may borrow short-term loans to cover unplanned cash flow shortages.

The Council has previously raised all of its long-term borrowing from the PWLB but, as a consequence of the recent increase in PWLB borrowing by councils to invest in commercial property, the government increased PWLB rates by 1% in October 2019, making it now a relatively expensive option. The Council will now look to borrow any long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code.

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

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

Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing;
- hire purchase;
- Private Finance Initiative; and
- sale and leaseback.

The Council has previously raised all of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates.

Municipal Bonds Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

LOBOs: The Council does not hold any LOBO's (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost.

Short-term and variable rate loans: These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.

Debt rescheduling: The PWLB allows Council's to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Investment Strategy

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's (Suffolk Coastal and Waveney District Councils) investment balance has ranged between £85.78 million and £132.78 million, and similar levels are expected to be maintained in the forthcoming year.

Objectives: The CIPFA Code requires the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Negative interest rates: If the UK enters into a recession in 2020/21, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy: Given the increasing risk and very low returns from short-term unsecured bank investments, the Council aims to diversify into more secure and/or higher yielding asset classes during 2020/21. This is especially the case for the estimated £30m that is available for longer-term investment. The majority of the Council's surplus cash is currently invested in either short-term unsecured bank deposits or Local Authority deposits. This diversification will represent a substantial change in strategy over the coming year.

Business models: Under the new IFRS 9 standard, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Approved counterparties: The Council may invest its surplus funds with any of the counterparty types in table 1 below, subject to the cash limits (per counterparty) and the time limits shown. These limits exclude any interest payments which will be paid to the Council periodically.

Table 1: Approved investment counterparties and principal limits

Credit rating	Banks unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£20m 5 years	£25m 20 years	£30m 50 years	£20m 20 years	£20m 20 years
AA+	£20m 5 years	£25m 10 years	£30m 25 years	£20m 10 years	£20m 10 years
AA	£20m 4 years	£25m 5 years	£30m 15 years	£20m 5 years	£20m 10 years
AA-	£20m 3 years	£25m 4 years	£30m 10 years	£20m 4 years	£20m 10 years
A+	£20m 2 years	£25m 3 years	£30m 5 years	£20m 3 years	£20m 5 years
A	£20m 13 months	£25m 2 years	£30m 5 years	£20m 2 years	£20m 5 years
A-	£20m 6 months	£25m 13 months	£20m 5 years	£20m 13 months	£20m 5 years
None	£4m 6 months	n/a	£10m 25 years	£10m 5 years	£20m 5 years
Pooled funds and real estate investment trusts	£10m per fund				

This table must be read in conjunction with the notes below.

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

Banks unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

Banks secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency although they are not a zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made either following an external credit assessment or to a maximum of £50,000 per company as part of a diversified pool in order to spread the risk widely.

Registered providers: Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Pooled funds: Shares or units in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

Real estate investment trusts (REIT): Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor.

Operational bank accounts: The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £15m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

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

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

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

Other information on the security of investments: The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

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

Investment limits: In order that investment balances are not put at too higher risk the maximum that will be lent to any one organisation (other than the UK Government) will be £25 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 2: Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£25m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£25m per group
Any group of pooled funds under the same management	£10m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Foreign countries	£4m per country
Registered providers & Registered Social Landlords	£10m in total
Unsecured investments with building societies	£15m in total
Loans to unrated corporates	£2m in total
Money Market Funds	50% of total investments

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

Treasury Management Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators.

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk. The lower the score the lower the risk is.

	2019/20 Q3	**Target**
Portfolio average credit score	4.9	4

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

	Target
Total cash available within 3 months	£15.00m

Interest rate exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed will be:

	2020/21	**2021/22**	**2022/23**
Upper limit on fixed interest rate exposure	100%	100%	100%
Upper limit on variable interest rate exposure	50%	50%	50%

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

Maturity structure of borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	**Lower**
Under 12 months	50%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	75%	0%
5 years and within 10 years	75%	0%
10 years and within 20 year	75%	0%
20 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal sums invested for periods longer than one year: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	2020/21	2021/22	2022/23	2023/24
Limit on principal invested beyond year end	£20.0m	£20.0m	£20.0m	£20.0m

Operational Boundary for External Debt: The operational boundary is based on the Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Council's debt.

Operational Boundary	2020/2021 Limit £m	2021/22 Limit £m	2022/23 Limit £m	2023/24 Limit £m
Borrowing	153.00	153.00	153.00	153.00
Total Debt	153.00	153.00	153.00	153.00

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

Authorised Limit	2020/21 Limit £m	2021/22 Limit £m	2022/23 Limit £m	2023/24 Limit £m
Borrowing	155.00	155.00	155.00	155.00
Total Debt	155.00	155.00	155.00	155.00

Related Matters

The CIPFA Code requires the Council to include the following in its treasury management strategy.

Financial Derivatives: Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

Housing Revenue Account: On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA at the Council's average interest rate on investments, adjusted for credit risk.

Markets in Financial Instruments Directive: The Council has opted up to professional client with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but with the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Chief Finance Officer believes this to be the most appropriate status.

Financial Implications

The budget for investment income in 2020/21 is £0.80 million, based on an average investment portfolio of £100 million at an average interest rate of 0.80%. The budget for debt interest paid in 2020/21 is £2.61 million, based on an average debt portfolio of £77.41 million at an average interest rate of 3.25%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Finance Officer, having consulted the Cabinet Member for Resources, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Annex A – Arlingclose Economic & Interest Rate Forecast December 2019

Underlying assumptions:

- The global economy is entering a period of slower growth in response to political issues, primarily the trade policy stance of the US. The UK economy has displayed a marked slowdown in growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations have eased.
- Some positivity on the trade negotiations between China and the US has prompted worst case economic scenarios to be pared back. However, information is limited, and upbeat expectations have been wrong before.
- Brexit has been delayed until 31st January 2020. Following the General Election, the Conservative position in parliament has been strengthened, which eliminates the chance of Brexit being further frustrated. A key concern is the limited transitionary period following a January 2020 exit date, which will maintain and create additional uncertainty.
- UK economic growth has stalled despite Q3 2019 GDP of 0.3%. Monthly figures indicate growth waned as the quarter progressed and survey data suggest falling household and business confidence. Both main political parties have promised substantial fiscal easing, which should help support growth.
- While the potential for divergent paths for UK monetary policy remain the weaker external environment severely limits potential upside movement in Bank Rate, while the slowing UK economy will place pressure on the MPC to loosen monetary policy. Indeed, two MPC members voted for an immediate cut in November 2019.
- Inflation is running below target at 1.7%. While the tight labour market risks medium-term domestically-driven inflationary pressure, slower global growth should reduce the prospect of externally driven pressure, although political turmoil could push up oil prices.
- Central bank actions and geopolitical risks will continue to produce significant volatility in financial markets, including bond markets.

Forecast:

- Although we have maintained our Bank Rate forecast at 0.75% for the foreseeable future, there are substantial risks to this forecast, dependant on whether the UK leaves the EU with a deal and the evolution of the global economy.
- Arlingclose judges that the risks are weighted to the downside.
- Gilt yields have risen but remain low due to the soft UK and global economic outlooks. US monetary policy and UK government spending will be key influences alongside UK monetary policy.
- We expect gilt yields to remain at relatively low levels for the foreseeable future and judge the risks to be broadly balanced.

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.21**
Arlingclose Central Case	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**
Downside risk	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**
3-month money market rate														
Upside risk	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.30	0.30	0.30	0.30	0.30	**0.25**
Arlingclose Central Case	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**
Downside risk	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**
1yr money market rate														
Upside risk	0.10	0.20	0.20	0.20	0.20	0.20	0.20	0.25	0.30	0.30	0.30	0.30	0.30	**0.23**
Arlingclose Central Case	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**
Downside risk	-0.30	-0.50	-0.55	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	**-0.60**
5yr gilt yield														
Upside risk	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.45	0.45	0.45	**0.37**
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.55**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.57**
Downside risk	-0.35	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	**-0.56**
10yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	**0.37**
Arlingclose Central Case	**0.75**	**0.75**	**0.80**	**0.80**	**0.85**	**0.85**	**0.90**	**0.90**	**0.95**	**0.95**	**1.00**	**1.00**	**1.00**	**0.88**
Downside risk	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	**-0.45**
20yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	**0.37**
Arlingclose Central Case	**1.20**	**1.20**	**1.25**	**1.25**	**1.25**	**1.30**	**1.30**	**1.30**	**1.35**	**1.35**	**1.35**	**1.40**	**1.40**	**1.30**
Downside risk	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	**-0.45**
50yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	**0.37**
Arlingclose Central Case	**1.20**	**1.20**	**1.25**	**1.25**	**1.25**	**1.30**	**1.30**	**1.30**	**1.35**	**1.35**	**1.35**	**1.40**	**1.40**	**1.30**
Downside risk	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	**-0.45**

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 1.80%

PWLB Local Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Annex B – Existing Investment & Debt Portfolio Position

	Nov-19 **Actual Portfolio** **£m**
External borrowing:	
Public Works Loan Board	**77.41**
Local authorities	**0**
Other loans	**0**
Total external borrowing	**77.41**
Other long-term liabilities:	
Leases	6.47
Total other long-term liabilities	
Total gross external debt	**83.88**
Treasury investments:	
Banks & building societies (unsecured)	10.96
Government (incl. local authorities)	93.00
Money Market Funds	2.00
Other pooled funds	14.86
Total treasury investments	**120.82**
Net debt	-36.94

Annex C – Summary of Existing Investment & Debt Portfolio Position

Type of Loan	Start Date	Maturity	Principal	Interest Rate	
Maturity Loans					
Fixed	30/11/1995	30/09/2024	2,000,000	8.38%	GF/HRA
Fixed	19/12/1996	31/03/2022	1,000,000	7.88%	GF/HRA
Fixed	10/08/2007	31/03/2055	3,000,000	4.55%	GF/HRA
Fixed	28/03/2012	28/03/2039	10,000,000	3.47%	HRA
Fixed	28/03/2012	28/03/2036	10,000,000	3.42%	HRA
Fixed	28/03/2012	28/03/2027	10,000,000	3.01%	HRA
Fixed	28/03/2012	28/03/2041	10,000,000	3.49%	HRA
Fixed	28/03/2012	28/03/2032	10,000,000	3.30%	HRA
Fixed	28/03/2012	28/03/2042	8,000,000	3.50%	HRA
Variable	28/03/2012	28/03/2022	10,286,000	0.92%	HRA
Equal Instalments of Principle (EIP)					
Fixed	15/05/2015	15/11/2035	3,120,000	3.69%	GF/HRA
Annuity					
Fixed	10/09/1968	26/08/2028	7,433	7.62%	GF/HRA
		Total	**77,413,433**		

Counterparty	Type of Investment	Principle		Start Date	Maturity	Interest Rate
Bank 1	Instant Access	4,960,000	n/a	n/a	n/a	
Bank 2	Instant Access	3,000,000	n/a	n/a	n/a	0.40%
Bank 3	32 Day Notice	500,000	n/a	21/05/2019	n/a	0.75%
Bank 4	95 Day Notice	2,500,000		21/05/2019		0.95%
		10,960,000				
Central Government	Fixed Term	5,000,000	<1 month	13/11/2019	02/12/2019	0.50%
Local Authority 1	Fixed Term	2,000,000	1 Year	03/12/2018	03/12/2019	1.01%
Local Authority 2	Fixed Term	2,000,000	6 months	03/06/2019	03/12/2019	0.85%
Local Authority 2	Fixed Term	3,000,000	6 months	07/06/2019	06/12/2019	0.85%
Local Authority 3	Fixed Term	10,000,000	1 Year	10/12/2018	10/12/2019	1.10%
Local Authority 2	Fixed Term	1,000,000	6 months	10/06/2019	10/12/2019	0.80%
Local Authority 2	Fixed Term	1,000,000	6 months	04/07/2019	03/01/2020	0.80%
Central Government	Fixed Term	3,000,000	<2 months	13/11/2019	06/01/2020	0.50%
Local Authority 1	Fixed Term	2,000,000	1 Year	04/01/2019	06/01/2020	1.01%
Local Authority 4	Fixed Term	3,000,000	6 months	19/08/2019	19/02/2020	0.80%
Local Authority 5	Fixed Term	2,000,000	278 days	29/05/2019	02/03/2020	0.92%
Local Authority 1	Fixed Term	4,000,000	1 Year	05/03/2019	05/03/2020	0.98%
Local Authority 6	Fixed Term	5,000,000	6 months	20/09/2019	20/03/2020	0.80%
Local Authority 7	Fixed Term	5,000,000	9 months	20/08/2019	20/05/2020	0.89%
Local Authority 2	Fixed Term	2,000,000	6 months	22/11/2019	22/05/2020	0.85%
Local Authority 8	Fixed Term	5,000,000	6 months	22/11/2019	22/05/2020	0.85%
Local Authority 2	Fixed Term	3,000,000	6 months	28/11/2019	28/05/2020	0.85%
Local Authority 9	Fixed Term	3,000,000	1 Year	25/06/2019	25/06/2020	0.95%
Local Authority 10	Fixed Term	5,000,000	6 months	08/07/2019	08/07/2020	0.95%
Local Authority 10	Fixed Term	5,000,000	1 Year	19/07/2019	20/07/2020	0.95%
Local Authority 11	Fixed Term	4,000,000	1 Year	31/07/2019	29/07/2020	0.95%
Local Authority 2	Fixed Term	3,000,000	1 Year	28/08/2019	26/08/2020	0.90%
Local Authority 12	Fixed Term	5,000,000	9 months	29/11/2019	01/09/2020	0.80%
Local Authority 13	Fixed Term	2,000,000	1 Year	25/09/2019	23/09/2020	0.90%
Local Authority 14	Fixed Term	5,000,000	2 Years	31/10/2018	30/10/2020	1.35%
Local Authority 15	Fixed Term	3,000,000	1 Year	01/11/2019	30/10/2020	0.83%
		93,000,000				
MMF 1	Instant Access	2,000,000	n/a	n/a	n/a	0.77%
		2,000,000				
Pooled Fund 1	Notice Long Term	9,856,000		29/11/2017		4.49%
Pooled Fund 2	Notice Long Term	5,000,000		17/10/2019		3.36%
		14,856,000				
	Total	**120,816,000**				

Investment Strategy Report 2020/21

East Suffolk Council

Introduction

The Council invests its money for two broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments), and
- to earn investment income (known as commercial investments where this is the main purpose).

Treasury Management Investments

The Council typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and Central Government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between £97 million and £140 million during the 2020/21 financial year.

Contribution: The contribution that these investments make to the objectives of the Council is to support effective treasury management activities.

Further details: Full details of the Council's policies and its plan for 2020/21 for treasury management investments are covered in a separate document, the treasury management strategy.

Commercial Investments: Property

Contribution: The Council invests in local commercial property with the intention of making a profit that will be spent on local public services.

Table 1: Property held for investment purposes in £ millions

Property	Actual	31.3.2019 actual	
	Purchase cost £000	Gains or (losses) £000	Value in accounts £000
Commercial shop	166	-22	144
Commercial shop	1,433	-603	830
Commercial shop	2,358	-450	1,908
TOTAL	**3,957**	**-1,075**	**2,882**

Security: In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

The fair value of the Council's investment property portfolio is no longer sufficient to provide security against loss. However, the Council fully expects the fair value to increase following significant works to the adjoining car park, with the fair value expected to increase to that nearing the original purchase price.

Risk assessment: The Council assesses the risk of loss before entering into and whilst holding property investments by assessing the viability of the cost of financing the investment against the return on investment in terms of receivable income. Investments that are subject to short leases are unlikely to be considered due to the high risk of potential voids.

Liquidity: Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed; the Council ensures that borrowing is on an equal instalment basis and that revenue budgets cover the cost of the loan repayment.

Loan Commitments and Financial Guarantees

Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Council and are included here for completeness.

The Council does not have any current financial guarantees and all loans are through the Public Works Loan Board (PWLB).

Capacity, Skills and Culture

Elected members and statutory officers: It is important that the members and officers involved in the Treasury Management function have appropriate capacity, skills and information to enable them to take informed decisions on specific investments, to assess the risk and strategic objectives and to ensure that the Council's risk exposure is managed. Periodically the Council's external Treasury advisors, Arlingclose will hold member training sessions which will provide members with a raft of technical advice specifically designed for the Council's environment. Additionally, Officers have a wide range of information available to them from various sources such as the Charted Institute of Public Finance and Accountancy (CIPFA), Arlingclose and Room 151. Officers will also attend a number of courses/seminars throughout the year and have periodical strategic meetings with the Council's treasury advisors.

Commercial deals: Officers negotiating commercial deals are aware of the core principles of the prudential framework and of the regulatory regime within which local Authorities operate and have access to a number of external bodies who can provide specific advice and direction.

Corporate governance: All of the Council's procedures provide a corporate governance arrangement that ensure accountability and for decision making on investment activities and ensure that the Council's Chief Finance Officer/Section 151 Officer is fully briefed on the Council's investment position at any one time.

Investment Indicators

The Council has set the following quantitative indicators to allow elected members and the public to assess the Council's total risk exposure as a result of its investment decisions.

Total risk exposure: The first indicator shows the Council's total exposure to potential investment losses. This includes amounts the Council is contractually committed to lend but have yet to be drawn down and guarantees the Council has issued over third party loans.

Table 2: Total investment exposure in £millions

Total investment exposure	31.03.2019 Actual £000	31.03.2020 Forecast £000	31.03.2021 Forecast £000
Treasury management investments	113.28	102.00	110.00
Commercial investments: Property	2.88	2.88	2.88
TOTAL INVESTMENTS	**116.16**	**104.88**	**112.88**
Guarantees issued on loans	87.57	77.41	77.25
TOTAL EXPOSURE	**-28.59**	**-27.47**	**-35.63**

How investments are funded: Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure.

Table 3: Investments funded by borrowing in £millions

Investments funded by borrowing	31.03.2019 Actual £000	31.03.2020 Forecast £000	31.03.2021 Forecast £000
Commercial investments: Property	3.36	3.20	3.04

Rate of return received: This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 4: Investment rate of return (net of all costs)

Investments net rate of return	2018/19 Actual	2019/20 Forecast	2020/2021 Forecast
Treasury management investments	0.89%	0.89%	0.85%
Treasury management property investments	4.21%	4.39%	4.40%
Commercial investments: Property	5.0%	1.2%	1.2%
ALL INVESTMENTS	**10.10%**	**6.48%**	**6.08%**

Agenda Item 6

ES/0236

AUDIT & GOVERNANCE COMMITTEE

Monday, 6th January 2020

CAPITAL STRATEGY 2020/21 TO 2023/24

EXECUTIVE SUMMARY

1. The Capital Strategy (***Appendix A***) gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services in East Suffolk, along with an overview of how associated risk is managed and the implications for future financial sustainability.
2. Section 2 of the Strategy outlines the planned Capital Programme 2020/21 to 2023/24 and the way in which it is to be financed. Including the Revised 2019/20 Capital Programme, overall planned expenditure is £211.69 million (General Fund £152.61 million and HRA £59.08 million) over 2019/20 to 2023/24. In 2020/21, there is planned capital expenditure of £57.065 million.
3. Section 3 of the Strategy refers to the Asset Management Strategy approved earlier this year and highlights the treatment of asset disposals and the continuation of the prudent policy of not anticipating capital receipts before they are received.
4. Section 4 covers Treasury Management, including both borrowing and investment. Treasury Management is a well-established Council activity that operates within a tightly controlled framework. Borrowing levels are expected to remain comfortably within the Council's pre-set limits throughout the duration of the Strategy.
5. Section 5 presents the Council's approach to Service Investments and its ongoing joint venture commitments with the Norse Group for a package of services including Refuse Collection, Cleansing and Maintenance.
6. Section 6 sets out the position on Commercial Investment and the way in which an increase in commercial investment and trading by the Council is set to build on current levels of activity. This represents a 'mixed delivery approach' – combining in-house/direct and arm's length delivery (through a local authority trading company) –for a range of commercial activities.
7. Section 7 explores the Council's other financial liabilities, both in terms of existing commitments (e.g. the Pension Fund deficit) and guarantees.
8. Section 8 explores the in-built revenue implications within the Capital Programme, its financing costs and also evaluates its overall "prudence, affordability and sustainability".
9. Section 9 explains how the Strategy is underpinned by a systematic approach to obtaining and maintaining the necessary knowledge and skills required, to operate effectively, whilst

	(simultaneously) adequately protecting the Council's financial risk exposure and wider interests.
10.	The Strategy concludes in Sections 10 and 11. This includes an explicit statement by the CFO in accordance with the Prudential Code, providing assurance to Members that the Capital Strategy as a whole is affordable, and that risk has been identified and is being adequately managed.

Is the report Open or Exempt?	Open

Wards Affected:	All

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 and Section 151 Officer 01394 444570 simon.taylor@eastsuffolk.gov.uk

1 HOW DOES THIS RELATE TO EAST SUFFOLK BUSINESS PLAN?

1.1 The Capital Strategy is a critical component in the delivery of many ambitions included within the Business Plan. It is not only essential to achieving one of the three overarching strategic priorities of the Plan ("Financial Self-Sufficiency") but is also vital in the delivery of a vast range of service development and delivery initiatives.

2 FINANCIAL AND GOVERNANCE IMPLICATIONS

2.1 All Financial and Governance implications are covered in the Capital Strategy (***Appendix A***).

3 OTHER KEY ISSUES

3.1 There are no other key issues arising from this report. Equality, (environmental) Sustainability and Partnership issues are considered as part of individual Capital Programme bids.

4 CONSULTATION

4.1 Professional guidance has been received (and followed) from the Council's Treasury Management advisors (Arlingclose).

5 OTHER OPTIONS CONSIDERED

5.1 There are no alternative options.

6 REASON FOR RECOMMENDATION

6.1 To enable Scrutiny Committee to review the Capital Strategy, including obtaining a recommendation for approval to Cabinet and Full Council.

RECOMMENDATIONS

1. That the Audit & Governance Committee reviews, comments upon, and recommends the Capital Strategy 2020/21 to 2023/24 to Cabinet and Full Council for approval.

APPENDICES	
Appendix A	**Capital Strategy 2020/21 to 2023/24**

BACKGROUND PAPERS - none

East Suffolk Council

Capital Strategy 2020/21 – 2023/24

1) Introduction

1.1 This Capital Strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services in East Suffolk, along with an overview of how associated risk is managed and the implications for future financial sustainability. It has purposely been written in an accessible style to enhance understanding of what can be very technical areas.

2) Capital Expenditure and Financing

2.1 Expenditure

2.1.1 Capital expenditure occurs when the Council spends money on assets such as property or vehicles, which will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are not capitalised and are charged to revenue in year.

2.1.2 Further details on the Council's capitalisation policy can be found in the 2018/19 Statement of Accounts:

- Note 1 (n) of Suffolk Coastal Accounts; and
- Note 1 (o) of Waveney Accounts.

2.1.3 In 2020/21, East Suffolk Council is planning capital expenditure of £57.07 million (and £177.7 million over the next four years) as summarised in Table 1 below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure

	2019/20 budget	2020/21 budget	2021/22 budget	2022/23 budget	2023/24 budget
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
General Fund Services	26,436*	41,640*	35,495	26,555	22,486
Council Housing (HRA)	6,591	15,425	12,691	12,185	12,185
TOTAL	**33,027**	**57,065**	**48,186**	**37,740**	**34,671**

* *The Council currently has £2.5 million allocated in 2019/20 & 2020/21 for Commercial Investment. The ongoing development and implementation of the Commercial Investment Strategy could see significant future allocations in the Capital Programme for this purpose.*

2.1.4 The main General Fund capital projects scheduled for 2020/21 are as follows:

- *Lowestoft Flood Risk Management/Tidal Barrier (£13.4million)* – currently the highest value scheme that the Council has with a budget allocation of £9.5 million included for Phase 1 works (Tidal Walls, Pluvial and Fluvial) and £3.9 million for Phase 2 works (the Tidal Gate);
- *Felixstowe Regeneration Project (£10.0 million)* – major investment in Felixstowe and progression of an overall £21 million regeneration initiative;
- *Land Acquisitions (£2.5 million)* - a block allocation to finance strategic land acquisitions, aimed at advancing the Council's housing and regeneration priorities;
- *Commercial Investment (£2.5 million)* - to progress the Council's Commercial Investment Strategy (see Section 6).

- *Lowestoft Beach Hut Replacement (£2.5 million)* – replacement of beach huts along with the demolition, reconstruction and enhancement of the adjoining café and amenity block;
- *East Point Pavilion (£1.5 million)* – development of new restaurant/café premises; and
- *Bungay Leisure Centre (£1.8 million)* – major redevelopment of leisure centre.

2.1.5 The Housing Revenue Account (HRA) is a ring-fenced account which ensures that the Council's housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately and includes £32.4 million allocated to the New Build Programme over the (four-year) forecast period, which is expected to deliver around 200 new homes.

2.2 Governance

2.2.1 The evaluation, prioritisation and acceptance of capital schemes onto the Capital Programme is carried out in accordance with strict criteria that ensures that added schemes reflect Council priorities and can be delivered within available resources (e.g. due priority is given to schemes yielding savings and/or generating income as well as meeting a Council priority). Proposals are shaped by senior managers in consultation with councillors and considered at the Head of Service budget meetings (in October/November each year) which also includes the Strategic Director responsible for the service area, the Chief Finance Officer (CFO) and relevant members of the finance team. The Head of Housing budget meeting also considers the HRA capital programme.

2.2.2 The draft Capital Programme is then subjected to formal Scrutiny prior to setting the budget (followed by Cabinet and full Council approval).

2.3 Financing

2.3.1 All capital expenditure must be financed, either from external sources (Government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing and leasing). The planned financing of the above expenditure is presented in Table 2 below.

Table 2: Capital Financing

	2019/20 budget	**2020/21 budget**	**2021/22 budget**	**2022/23 budget**	**2023/24 budget**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
External sources	9,418	17,233	24,255	28,078	24,539
Own resources	11,605	15,610	12,519	9,762	9,732
Debt	12,004	24,222	11,325	900	400
TOTAL	**33,027**	**57,065**	**48,099**	**38,740**	**34,671**

2.3.2 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as "Minimum Revenue Provision" (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are presented in Table 3 below.

Table 3: Replacement of Debt Finance

	2019/20 Actual	**2020/21 budget**	**2021/22 budget**	**2022/23 budget**	**2023/24 budget**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
Own resources	815	1,080	1,356	1,404	1,439

2.3.3 The Council's annual MRP statement can be found at Annex A below.

2.3.4 The Council's cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £23.687 million in 2020/21. Based on the above figures for expenditure and financing, the Council's estimated CFR is presented in Table 4 below.

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement (CFR)

	2019/20 budget	2020/21 budget	2021/22 budget	2022/23 budget	2023/24 budget
	£000's	£000's	£000's	£000's	£000's
General Fund services	46,921	70,608	81,408	81,808	82,208
Council housing (HRA)	77,550	77,550	67,264	67,264	67,264
Capital investments	-	-	-	-	-
TOTAL CFR	**124,471**	**148,158**	**148,672**	**149,072**	**149,472**

3) Asset Management

3.1 Asset Management Strategy

3.1.1 The Council recognises the importance of ensuring that capital assets continue to be of long-term use especially against a rapidly changing operational and technological backdrop. Enhancing the management of the Council's existing asset base and looking beyond the traditional medium-term financial planning horizon is a major priority. An updated Asset Management Strategy (AMS) was approved in July 2019, broken down into four key components:

- Administrative Improvements;
- Compliance and Sustainability;
- A strategic approach to assets; and
- Reducing expenditure and increasing income.

The AMS takes a longer-term view comprising:

- 'Good' information about existing assets;
- The optimal asset base for the efficient delivery of Council objectives;
- The gap between existing assets and optimal assets;
- Strategies for purchasing and constructing new assets, investment in existing assets, transferring of assets to other organisations and the disposal of surplus assets; and
- Plans for individual assets.

3.2 Asset Disposals

3.2.1 When a capital asset is no longer needed, it may be sold so that the proceeds - known as capital receipts - can be spent on new assets or to repay debt. The Council is also permitted to spend capital receipts on service transformation projects until 2021/22 (in line with its "Flexible Use of Capital Receipts Policy"). Repayments of capital grants, loans and investments also generate capital receipts. Table 5 below summarises the overall budget projections for capital receipts.

Table 5: Capital Receipts

	2019/20	2020/21	2021/22	2022/23	2023/24
	£000's	£000's	£000's	£000's	£000's
Asset sales	-	-	-	-	-
Loans repaid	10,160	160	10,446	160	160
TOTAL	**10,160**	**160**	**10,446**	**160**	**160**

3.2.2 The Council operates a deliberately prudent policy of not assuming future capital receipts within its capital income projections. The most significant capital receipt likely to be received during the timescale of this Strategy relates to the disposal of the former headquarters of Suffolk Coastal District Council at Melton Hill, Woodbridge and the value of capital receipts assumed within the Capital Programme will be updated to reflect this when they are realised.

3.2.3 The Council's Flexible Use of Capital Receipts Policy will form part of the General Fund Budget & Council Tax Report to Council on 26th February 2020.

4) Treasury Management

4.1 Introduction

4.1.1 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

4.1.2 Due to decisions taken in the past, the Council currently (30th November 2019) has borrowing of £77.41 million at an average interest rate of 3.25% and £120.82 million in treasury investments at an average consolidated rate of 1.29%.

4.2 Borrowing

4.2.1 The Council's main objective when borrowing is to achieve a low but certain cost of finance while retaining flexibility should plans change in the future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans (currently available at around 2.61%) and long-term fixed rate loans where the future cost is known but higher (currently 2.7 to 3.3%).

4.2.2 Projected levels of the Council's total outstanding debt (which comprises borrowing and leases) are shown below in Table 6, compared with the Capital Financing Requirement (Table 4 above).

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement

	2019/20 budget	**2020/21 budget**	**2021/22 budget**	**2022/23 budget**	**2023/24 budget**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
Debt (incl. leases)	95,884	119,946	131,111	131,876	132,116
Capital Financing Requirement	124,471	148,158	148,672	149,072	149,472

4.2.3 Statutory guidance is that debt should remain below the Capital Financing Requirement, except in the short-term. As can be seen from Table 6, the Council expects to comply with this in the medium term.

Liability Benchmark

4.2.4 To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the minimum amount of borrowing required to keep investments at minimum liquidity level. This assumes that cash and investment balances are kept to a minimum level of £30 million at each year-end. The Liability Benchmark is currently £95.88 million and is forecast to increase to £132.09 million over the next four years.

Table 7: Borrowing and the Liability Benchmark

	31.3.2020 forecast	31.3.2021 forecast	31.3.2022 forecast	31.3.2023 forecast	31.3.2024 forecast
	£000's	£000's	£000's	£000's	£000's
Outstanding Borrowing	83,880	83,720	83,560	83,400	83,240
Liability Benchmark	95,884	119,946	131,111	131,851	132,091

4.2.5 Table 7 above shows that the Council expects to remain borrowed below its Liability Benchmark.

Affordable Borrowing Limit

4.2.6 The Council is legally obliged to set an affordable borrowing limit (also termed the "Authorised Limit" for external debt) each year. In line with statutory guidance, a lower "Operational Boundary" is also set as a warning level should debt approach the limit.

Table 8: Prudential Indicators: Authorised Limit and Operational Boundary for External Debt

	2019/20 limit	2020/21 limit	2021/22 limit	2022/23 limit	2023/24 limit
	£000's	£000's	£000's	£000's	£000's
Authorised limit – borrowing	148,380	148,380	148,380	148,380	148,380
Authorised limit – leases	6,620	6,620	6,620	6,620	6,620
Authorised limit – total external debt	155,000	155,000	155,000	155,000	155,000
Operational boundary – borrowing	146,380	146,380	146,380	146,380	146,380
Operational boundary – leases	6,620	6,620	6,620	6,620	6,620
Operational boundary – total external debt	153,000	153,000	153,000	153,000	153,000

4.2.7 Further details on borrowing are contained in the Treasury Management Strategy.

4.3 Investments

4.3.1 Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

(Treasury Management) Investment Strategy

4.3.2 The Council's Investment Strategy is to prioritise security and liquidity over yield; focussing on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with other local authorities or selected high-quality banks, to minimise the risk of loss.

4.3.3 From 2019/20, the Council plans to operate a more diverse strategy than in the past for longer-term funds, which will be invested more widely, including into bonds, loans, property and shares; this will better balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

4.3.4 Table 9 below summarises the Council's current and forecast treasury investments.

Table 9: Treasury Management Investments

	2019/20 forecast	2020/21 forecast	2021/22 forecast	2022/23 forecast	2023/24 forecast
	£000's	£000's	£000's	£000's	£000's
Near-term investments	102,480	81,593	71,193	70,793	70,393
Longer-term investments	14,800	14,800	15,000	15,000	15,000
TOTAL	**117,280**	**96,393**	**86,193**	**85,793**	**85,393**

4.4 Governance

4.4.1 Treasury management decisions are made daily and are therefore delegated to the CFO, who must act in line with the Treasury Management Strategy approved by the Council. Annual outturn reports on treasury management are also approved by the Council (following recommendation from Audit and Governance Committee), whereas mid-year updates are reported exclusively to the Audit and Governance Committee.

5) Investments for Service Purposes

5.1 The Council will sometimes make investments for service delivery purposes where there is a strategic case for doing so. This is an approach that has been adopted for the delivery of a package of services including Refuse Collection, Cleansing and Maintenance whereby the Council has entered into joint ventures with the Norse Group. Given its public service objectives, the Council is willing to take more risk than with treasury investments, nevertheless the arrangements feature cost reduction incentives, from which the Council benefits in the form of Management Fee reductions.

5.2 As at 31st March 2019, the Council held net investments of £118,000 as follows:

- Suffolk Coastal Norse Limited - the Council has held a 20% equity share since April 2009. The Council's share of Net Assets / (Liabilities) at 31st March 2019 was (£314,000); and
- Waveney Norse Limited – the Council has held a 19.9% equity share since April 2008. The Council's share of Net Assets / (Liabilities) at 31st March 2019 was £432,000.

Governance

5.3 Decisions on service investments are made by the Council's Cabinet and require the support of a full business case. The Council is also represented on the boards of both Norse joint venture companies.

6) Commercial Investments

6.1 Current Investments

6.1.1 In recent years, the Council has invested in commercial property in the district on a selective basis, usually where there is a fit with corporate priorities and a positive financial return that can be used to contribute towards the protection of local services. As at 31st March 2019, the commercial property portfolio comprised three shop units in Lowestoft with an estimated Fair Value of £2.882 million. Estimated net return (after all costs) for 2019/20 is expected to be £153,000 (0.5%).

6.2 Commercial Investment Strategy

6.2.1 In recognition of the continued shortfall in local government funding and commitments made in the East Suffolk Business Plan (2015-23), the Council adopted a draft Commercial Investment Strategy (CIS) in September 2017 with a view to achieving a step change increase in commercial investment and trading by the Council.

6.2.2 The CIS has been developed into a business case advocating a commercial investment and trading delivery approach, including the creation of a local authority trading company (LATCO). Adopted in January/February 2019, and being progressively phased in during 2019/20 (following the development and approval of a full business case in support of each commercial activity), it is a mixed delivery approach covering the following activities:

- *In-House*
  - Commercial Property Investment

- Commercial Property Development

- *LATCO*
  - Residential Property Investment
  - Residential Property Development
  - Property Management Services
  - Construction Services (initially Roofing and Scaffolding)
  - Leisure Services (e.g. Holiday Lets and Beach Huts).

6.2.3 With regard to Commercial Property Investment, CIPFA expressed concern in October 2018 at what they perceive to be the increasing risk taken on by local authorities following a sharp increase in Public Works Loan Board (PWLB) borrowing by councils to invest in commercial property. Both CIPFA and MHCLG have made changes in recent years to codes of practice and statutory guidance in response to increased investment in property. This includes revisions to the CIPFA Prudential Code for Capital Finance in Local Authorities; the CIPFA Treasury Management in the Public Services: Code of Practice; and MHCLG Statutory Investment Guidance. MHCLG have indicated that there is unlikely to be any radical change to the current Statutory Investment Guidance.

6.2.4 CIPFA recently issued guidance on Prudential Property Investment in November, following circulation of draft guidance for consultation in June. The CIPFA Guidance expresses three main areas of concern:

- whether legal powers exist that permit local authorities to borrow to invest in property;
- whether the risks of incurring certain borrowing costs in exchange for uncertain investment returns are fully understood; and
- that ever-increasing purchases of commercial property funded by borrowing places a strain on the credibility of the prudential framework that could lead to statutory intervention.

6.2.5 Although not statutory in nature, the Council's approach will incorporate the CIPFA guidance; this will enhance the other risk management features that are being developed; this includes a strict governance framework, the use of real estate investment experts and diversified portfolios. The aim is to offset principle risks such as falling capital values and 'voids'. However, (within a tightly controlled framework) the Council ultimately accepts a higher risk on commercial investments compared to treasury investments.

6.2.6 One consequence of the recent increase in PWLB borrowing by councils to invest in commercial property has been an increase on 9th October 2019 of 1% in the interest rate for PWLB loans. HM Treasury's rationale for this was as follows: "Some local authorities have substantially increased their use of the PWLB in recent months, as the cost of borrowing has fallen to record lows. HM Treasury is therefore restoring interest rates to levels available in 2018, by increasing the margin that applies to new loans from the PWLB by 100bps (one percentage point) on top of usual lending terms." For the Council, the implications of this are likely to be that, in order to optimise the Council's financial position, the Council increasingly finances the Capital Programme by way of internal rather than external borrowing, with a corresponding reduction in the level of cash balances available for investment.

6.2.7 As noted above (Paragraph 2.1.5), the Council currently has £5.0 million allocated in the Capital Programme for Commercial Investment.

6.3 Governance

6.3.1 Governance arrangements for commercial investment and trading continue to be developed. Tailored arrangements will be required for both the in-house and LATCO elements of the commercial investment and trading approach. Thus:

- *In-House* – Commercial Property Investment is an activity that requires quick decisions to be made if good commercial investment opportunities are to be realised. However, the requirement for speed must not be at the expense of professional expertise (e.g. on real estate investment) and strong oversight. Draft proposals include an officer "Property Acquisitions Group" - with provision for investment expertise – to consider and make recommendations on investment opportunities, overseen by a "Property Acquisitions Sub-Committee" with delegated decision-making powers; and

- *LATCO* – the arms length delivery of commercial investment and trading dictates a need for an appropriate balance between allowing the LATCO sufficient operational freedom to think and act with a commercial mind-set, but at the same time ensuring effective Governance arrangements are in place so that the strategic objectives of the Council are met and their general interest protected. Draft proposals include an independent LATCO Board with freedom to make day-to-day operational decisions, overseen by a Shareholder Committee appointed by Cabinet, being responsible for "reserved matters" (major decisions).

7) Other Liabilities

7.1 Outstanding Commitments

7.1.1 The Council also has the following outstanding commitments:

- A commitment to achieve a fully funded position on the Pension Fund (over a 20-year period from 2013 to 2033). The deficit was valued at £75.39 million as at 31st March 2019 and back-funding payments of £3.0 million are scheduled to be made in 2019/20. For 2020/21 to 2022/23 onwards there will not be a deficit payment, which will instead be incorporated into the primary employers' pension contribution rate; and

- The Council has also set aside £6.12 million (as at 31st March 2019) to cover the financial risk associated with Business Rates appeals lodged with the Valuation Office Agency (VOA).

7.2 Guarantees

7.2.1 The Council became "self-financing" in respect of its retained housing stock (in the former Waveney district) from April 2012. The self-financing regime applied to all authorities and replaced the former housing subsidy system whereby the Council made annual subsidy payments to the Government funded from its HRA. Its introduction entailed a one-off redistribution of 'debt' between local authorities, and locally this resulted in the Council taking on PWLB loans, which it is required to service (instead of making housing subsidy payments).

7.2.2 A 30-year Business Plan for the Council's HRA has been developed, which is currently generating sufficient rental income each year to run an efficient and effective housing management service, whilst at the same time servicing the outstanding debt (which is scheduled for repayment in full by March 2042 i.e. within the 30-year timeframe). However, if the HRA is unable to repay the outstanding debt at any point in the future, the Council (through its General Fund) is liable to repay any remaining balance. The remaining balance on HRA debt as at 31st March 2019 was £76 million.

7.3 Governance

7.3.1 Decisions on incurring new discretionary liabilities are taken by Directors and Heads of Service in consultation with the CFO. For example, in accordance with the Financial Procedure Rules (Part 3 of the Constitution, Paragraph 2.1.25), credit arrangements – such as leasing agreements – cannot be entered into without the prior approval of the CFO.

8) Revenue Implications

8.1 Financing Cost

8.1.1 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, Business Rates and general Government grants.

Table 10: Prudential Indicator: Proportion of Financing Costs to Net Revenue Stream (General Fund)

	2019/20 budget	**2020/21 budget**	**2021/22 budget**	**2022/23 budget**	**2023/24 budget**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
Financing Costs (£m)	1,381	1,615	1,899	1,947	1,982
Proportion of Net Revenue Stream	2.36%	3.37%	4.51%	4.71%	4.86%

Table 11: Prudential Indicator: Proportion of Financing Costs to Net Revenue Stream (HRA)

	2019/20 budget	**2020/21 budget**	**2021/22 budget**	**2022/23 budget**	**2023/24 budget**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
Financing Costs (£m)	2,278	5,410	5,497	4,622	4,622
Proportion of Net Revenue Stream	21.17%	35.24%	34.32%	29.21%	29.21%

8.1.2 Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for many [occasionally up to 50] years into the future.

8.2 "Prudence, Affordability and Sustainability"

8.2.1 The CFO is satisfied that the proposed Capital Programme (Section 2) is prudent, affordable and sustainable based on the following:

<u>*Prudence*</u>

- Prudential indicators 10 and 11 presented above (Paragraph 8.1.1) are within expected and controllable parameters. Thus:
  - *Prudential Indicator 10 (General Fund) - Proportion of Financing Costs to Net Revenue Stream* – the growth in financing costs reflects the Council's ambitions for capital investment in its strategic priorities over the medium-term. The projected indicator profile is relatively flat from 2020/21, remaining well below 10% at all times.
  - *Prudential Indicator 11 (HRA) - Proportion of Financing Costs to Net Revenue Stream* – the indicator profile mirrors the HRA 30-Year Business Plan, which is a fully-costed strategy that will see all outstanding debt repaid by 2042/43.
- *Underlying Prudent Assumptions* – a prudent set of assumptions have been used in formulating the Capital Programme. This is illustrated in the approach to capital receipts whereby the proceeds are not assumed within projections until the associated sale is completed and the money received by the Council; and
- *Repairs and Maintenance* – the approach to asset maintenance is professionally guided with assets maintained in a condition commensurate with usage and expected life, addressing those items that could affect ongoing and future maintenance, in the most appropriate and cost-effective manner.

Affordability

- The estimated 'revenue consequences' of the Capital Programme (£5.943 million over four years) have been included in the draft 2020/21 Budget and Medium-Term Financial Strategy (MTFS), extending to 2023/24; and
- The MTFS is underpinned by a Reserves Strategy, which includes contingency funds in the event that projections are not as expected (further supported by CFO report to Council under Section 25 of the Local Government Act 2003 on the robustness of estimates and the adequacy of financial reserves and balances).

Sustainability

- Capital schemes that are expected to deliver long-term revenue savings/generate income are given due priority. For example, the Lowestoft Tidal Barrier (unlocking brownfield development sites and providing a boost to future income from Business Rates and Council Tax), the Leisure Centre Development Programme (driving up usage, enabling Management Fee reductions) and Commercial Investment (e.g. generating rental income from commercial property investments).
- As explained in Section 3.1 above, the Asset Management Strategy represents an enhancement to the Council approach to asset planning through (especially) taking a longer-term view. This includes providing for future operational need, balancing the requirement to achieve optimal performance, whilst taking account of technological change and managing the risk of obsolescence.

9) Knowledge and Skills

9.1 Officers

9.1.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. Most notably:

- *Finance* - the Chief Finance Officer (CFO) is a qualified (CIPFA) accountant with many years of experience. The Council sponsors junior staff to study for relevant professional qualifications including AAT, CIPFA and ACCA. The Council also pays for (and ensures attendance on) training courses and conferences across all aspects of accounting, including (especially) Treasury Management to keep professional client status under "MIFID II" (the "Markets in Financial Instruments Directive", incorporated into UK law in November 2017); and
- *Property* – the Asset and Investment Manager (AIM) – a qualified (MRICS) surveyor, with many years of experience – is responsible Asset Management within the Council. The Asset Management department is well resourced and comprises the Estates Management, Building Services and Development functions of the Council. Each function is headed by an appropriately qualified professional within their individual specialism (e.g. the Building Services team is led by Member of the Chartered Institute of Builders). As with Finance, the Council is strongly committed to supporting both professional and wider staff development within its Asset Management function, with the number of qualified RICS surveyors continuing to increase in recent years. The AIM will also play a key role in the Council's approach to commercial investment and trading (highlighted above in Section 6).

9.1.2 The Council also has a separate Housing team that is responsible for overseeing social housing developments within the district.

9.2 External Advisors

9.2.1 Where the Council does not have the relevant knowledge and skills required, judicious use is made of external advisers and consultants that are experts/specialists in their field. The Council currently employs Arlingclose Limited as Treasury Management advisers, and the Asset Management team will appoint property advisors (e.g. development managers, valuers etc.) to support their work where required. The approach is more cost effective than employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with risk.

9.3 Councillors

9.3.1 Newly elected councillors have been required to undertake induction training at both Suffolk Coastal and Waveney district councils for some years. However, with the inaugural election for the new Council having taken place in May, all councillors will receive training appropriate to their role in the new Council.

9.3.2 Specifically with regard to Treasury Management, the Council acknowledges the importance of ensuring that members have appropriate capacity, skills and information to effectively undertake their role. To this end, newly elected East Suffolk councillors with Treasury Management responsibilities will receive tailored training sessions from the Council's Treasury Management advisors (Arlingclose).

10) CFO Statement on the Capital Strategy

10.1 Prudential Code

10.1.1 Paragraph 24 of the recently updated Prudential Code determines that…." the Chief Finance Officer should report explicitly on the affordability and risk associated with the Capital Strategy".

10.1.2 Accordingly, it is the opinion of the CFO that the Capital Strategy as presented is affordable, and associated risk has been identified and is being adequately managed.

10.2 Affordability

10.2.1 The Capital Strategy is affordable and there is a range of evidence to support this assertion, including:

- *Capital Programme* – the Programme as presented above (in Section 2.1) is supported by a robust and resilient MTFS extending through until 2023/24 that contains adequate revenue provision, including sufficient reserves in the event that plans and assumptions do not materialise as expected;
- *Asset Management* – as presented above (in Section 3.1) the new Asset Management Strategy is taking a strategic longer-term (i.e. beyond 2023/24) view of the Council's asset base. A fundamental aim of the Strategy is to achieve the optimum balance between future operational need and affordability, which is reflected in its component parts including strategies for purchasing and constructing new assets, investment in existing assets, transferring of assets to other organisations and the disposal of surplus assets; and
- *Commercial Investment* – as presented above (in Section 6.2) the primary aim of the Strategy long-term is income generation to replace the shortfall in Government funding. The Strategy is progressing positively towards the delivery stage and its success will be critical to the long-term affordability of the Capital Strategy.

10.3 Risk

10.3.1 The risk associated with the Capital Strategy has been identified and is being adequately managed. Evidence to support this assertion includes:

- *Treasury Management Strategy* – the Council is in the process of formally approving its Treasury Management Strategy for 2020/21 in accordance with CIPFA's "Treasury Management in the Public Services: Code of Practice 2017". That Strategy was developed by the Council's (professionally qualified and experienced) Finance team and informed by specialist advisors Arlingclose and other relevant and extant professional guidance;

- *Investment Strategy* – the Council is also formally approving an Investment Strategy for 2020/21 in accordance with MHCLG's "Statutory Guidance on Local Government Investments (3rd Edition) 2018". As with the Treasury Management Strategy, the Investment Strategy was developed by the Finance team and informed by specialist advisors Arlingclose and other relevant and extant professional guidance; and

- *Commercial Activities* – as noted above (in Paragraph 6.2) the Council is committed to expanding the scale of its commercial activities in the medium-term as part of its Commercial Investment Strategy. It is recognised and accepted that increased commercial activity brings additional risk. The Strategy is therefore being developed in accordance with contemporary best practice. This includes the engagement of professional advisors on the commercial, financial and legal aspects of the project and the preparation of full supporting business cases prior to the commencement of both in-house and arms length trading activities, strictly in accordance with HM Treasury's 'five-case model' ("The Green Book: Central Government Guidance on Appraisal and Evaluation").

10.3.2 In addition, the CFO is satisfied that there are no major omissions – in terms of financial liabilities – from the Capital Programme in the medium-term. The Asset Management Strategy extends beyond the medium-term and provides longer-term assurance with effect from 2020/21.

11) Capital Strategy Updates

11.1 The Capital Strategy is a 'living document' and will be periodically – usually annually – updated to reflect changing local circumstances and other significant developments.

Annual Minimum Revenue Provision Strategy

1. Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Council to have regard to the Ministry for Housing, Communities and Local Government's Guidance on Minimum Revenue Provision.

2. The broad aim of the Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

3. The Guidance requires the Council to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance as well as locally determined prudent methods.

4. For capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset as the principal repayment on an annuity with an annual interest rate equal to the average relevant Public Works Loan Board rate for the year of expenditure, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.

5. Capital expenditure incurred during 2020/21 will not be subject to a charge until 2021/22.

AUDIT & GOVERNANCE COMMITTEE

Monday, 6 January 2020

INTERNAL AUDIT CHARTER

EXECUTIVE SUMMARY

1. This report presents the Audit and Governance Committee with the refreshed Internal Audit Charter. The Internal Audit Charter defines Internal Audit's purpose, authority, responsibility and position within the Council, and is regularly reviewed to take account of any practical or best practice changes. The Internal Audit Charter was last reviewed in September 2018.

2. The Charter has been reviewed and refreshed.

3. Other amendments seek to make the Charter more accessible, and to reflect the creation of East Suffolk Council.

4. This report is presented to the Audit and Governance Committee to enable it to fulfil its terms of reference: *'To review and approve the Internal Audit Charter to ensure that it is appropriate to the needs of the organisation'.*

Is the report Open or Exempt?	Open

Wards Affected:	All Wards in the District

Cabinet Member:	Leader of the Council and Cabinet Member with responsibility for Resources Cllr Steve Gallant

Supporting Officer:	Mrs Siobhan Martin Head of Internal Audit Tel Number: 01394 444254 Email; siobhan.martin@eastsuffolk.gov.uk

1 INTRODUCTION

1.1 The existing Internal Audit Charter has been reviewed to ensure it remains compliant with the Public Sector Internal Auditor Standards (PSIAS) 2016 and local requirements.

1.2 The refreshed Charter has also been amended to take into account relevant recommendations arising from the recent external review of Internal Audit, to make the document more accessible, and to reflect the creation of East Suffolk Council.

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

2.1 The Internal Audit Charter facilitates the good governance arrangements and practices which underpin the Council's strategic and operational workings, including the East Suffolk Business Plan.

3. FINANCIAL AND GOVERNANCE IMPLICATIONS

3.1 No direct financial implications have been identified.

3.2 The governance implications relate to the statutory necessity to maintain an adequate and effective Internal Audit Service. In order to achieve effectiveness, the Service must be compliant with the latest best practice. Regular review of the Internal Audit Charter enables adherence to best practice.

4. OTHER KEY ISSUES

4.1 There are no known implications in relation to this report over Equality Impact Assessment, Sustainability Impact Assessment or Partnership Impact Assessment.

5. CONSULTATION

5.1 The Chief Executive, Section 151 Officer and External Auditor (Ernst & Young) have been apprised of the refreshed Internal Audit Charter.

6. **OTHER OPTIONS CONSIDERED**

6.1 There are no other options to be considered in the context of this report.

7. REASON FOR RECOMMENDATION

7.1 By approving the refreshed Internal Audit Charter, which is in accordance with best practice, the Committee will fulfil its responsibility within its terms of reference: *'To review and approve the Internal Audit Charter to ensure that it is appropriate to the needs of the organisation'.*

RECOMMENDATION
That the Audit and Governance Committee approve the refreshed Internal Audit Charter attached at Appendix 1.

APPENDICES	
Appendix 1	Internal Audit Charter – December 2019

BACKGROUND PAPERS - Please note that copies of background papers have not been published on the Council's website, but copies of the background papers listed below are available for public inspection free of charge by contacting the relevant officer.

Date	Type	Available From
2017	Public Sector Internal Auditor Standards	Head of Internal Audit Siobhan.martin@eastsuffolk.gov.uk

East Suffolk Council

INTERNAL AUDIT CHARTER

January 2020

1. INTRODUCTION

1.1 This Internal Audit Charter defines the purpose, authority and responsibility of the Internal Audit Service across East Suffolk Council.

1.2 The Internal Audit function is a requirement of Regulation 5 of the Accounts and Audit (England) Regulations 2015, which requires local authorities to undertake “effective internal audit to evaluate the effectiveness of its risk management, control and governance processes”. This supplements Section 151 of the Local Government Act 1972, which requires that authorities make arrangements for the proper administration of their financial affairs.

1.3 The Audit and Governance Committee has overall responsibility for providing independent assurance as to the adequacy of the risk management framework and the Council’s internal controls. All auditing activity within the Council is accountable to the Audit and Governance Committee.

1.4 The Head of Internal Audit will periodically review this Charter and present it to the Audit and Governance Committee and senior management at least every two years.

2. THE MISSION OF INTERNAL AUDIT

2.1 The Mission of Internal Audit articulates what internal audit aspires to accomplish within the Council. All audit activity is designed to support and achieve the Mission:

> **To enhance and protect organisational value by providing risk-based independent and objective assurance, advice and insight.**

2.2 To deliver the Mission, Internal Audit is further defined as providing:

“… an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

3. GOVERNANCE OF INTERNAL AUDIT

3.1 Internal Audit within the public sector has a statutory duty to take into account public sector internal auditing standards or guidance. These are CIPFA's Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN).

3.2 A public sector requirement of the PSIAS is for this Charter to define the terms 'board' and 'senior management' for the purpose of internal activity.

3.2.1 The Board

In accordance with CPIFA guidance, the Council's Audit and Governance Committee will perform the function of the Board. The Audit and Governance Committee's role and responsibilities, including those for overseeing Internal Audit activity, are set out in the Council's Constitution.

3.2.2 Senior Management

At East Suffolk Council, the Corporate Management Team (CMT) will perform the function of senior management.

3.3 In addition, there are a number of key roles within the Internal Audit function:

3.3.1 Head of Internal Audit

The Head of Internal Audit (HOIA) is responsible for establishing and effectively managing the provision of Internal Audit. Details of the HOIA's responsibilities and authority are set out in the Council's Constitution and this Audit Charter.

3.3.2 Internal Auditor Officers

The Internal Audit team is responsible for delivering internal audit services under the direction of the HOIA.

3.4 Where there is a conflict of standards, the PSIAS set out above within this Charter will take precedent.

4. SCOPE OF INTERNAL AUDIT

4.1 Internal Audit is a valuable asset, contributing to the Council's achievement of corporate objectives by promoting the identification and management of risk, strengthening the control environment, and fostering good governance practices.

4.2 In line with the Council's Constitution, Internal Audit has unrestricted scope in order to fulfil its Mission. Internal Audit's remit includes the whole of the organisation's control environment and activities. This includes access to delegated or contracted out services where the Council remains accountable.

4.3 Internal Audit may rely on assurance from other providers, where professional standards allow and the assurance is relevant to the activities of the Council.

4.4 Internal Audit supports the Council's counter fraud activities by providing resources where required. The Corporate Fraud Team retains responsibility for directing fraud-related activities, such as investigation of irregularities or pro-active exercises.

4.5 Internal Audit provides assurance in accordance with the Annual Plan approved by the Audit and Governance Committee. It may also provide consultancy services, giving advice and guidance to management, subject to there being no impact on the core assurance work and the availability of skills and resources.

4.6 Internal Audit services may also be provided to organisations beyond this Council, where agreed in writing and subject to there being no impact on the core assurance work.

5. RESPONSIBILITIES AND OBJECTIVES OF INTERNAL AUDIT

5.1 To meet its mission, responsibilities and objectives Internal Audit will:

- Review and assess the soundness, adequacy and reliability of financial and non-financial management and performance systems, and quality of data that support the controls (including those for risk management, corporate governance and ethical framework) established for the proper administration of the Council's activities.

- Review and assess the effectiveness of internal controls and agree actions to improve where appropriate.

- Review and assess procedures to check the Council's assets and interests are properly accounted for, adequately protected and risks are identified and effectively managed.

- Check for the extent of compliance with legislation, council policies, plans and procedures to ensure that good standards of management are maintained and that decisions taken by the Council, its committees and management are correctly applied.

- Examine, review, appraise and report upon the application of proper authorisation within the delegated authorities given by the various levels of management.

- Promote and assist the Council in the economic, efficient and effective use of resources to in the achievement of the Council's corporate objectives. This includes the provision of any consultancy (advice, facilitation, training etc) work as well as assurance services.

- Undertake independent investigations into allegations of fraud and irregularity in accordance with the Council's policies and procedures and relevant legislation.

- Maintain effective relationships with the managers. Regular meetings will be held with key stakeholders and management will be consulted during the audit planning process. Timing of audit work will be in conjunction with management.

- Take account of the results and reports from any inspections when planning and undertaking Internal Audit work. Where appropriate the Head of Internal Audit will establish a dialogue with representatives of the appropriate inspection agencies.

- Maintain an established working relationship with the External Auditor where internal and external audit can rely on each other's work, subject to the limits determined by their responsibilities, enabling them to evaluate, review and only re-perform where necessary. Regular meetings will be held and plans and reports shared.

5.2 The Head of Internal Audit will

- establish a working relationship with members, in particular with members of the Audit and Governance Committee. The Head of Internal Audit has the right to meet privately with the Chairman of the Audit and Governance Committee, if desired.

- maintain an effective working relationship with the Chief Financial Officer who leads and directs financial strategy and operations.

6. INDEPENDENCE AND OBJECTIVITY

6.1 Internal Audit must be independent of the organisation, so that it can provide objective, impartial and effective professional judgements at the individual auditor, engagement, functional and organisational levels.

6.2 At the functional and organisational levels:

- The Audit and Governance Committee receives reports directly from the HOIA, as set out in the Council's Constitution

- Internal Audit will have no direct operational responsibility or authority over any audited operational process where appropriate safeguards do not exist. Internal Audit will not develop, install systems and procedures, prepare records or engage in any other process that could be considered an auditable activity, without appropriate safeguards in place.

- The HOIA has a direct reporting line to the Audit and Governance Committee, with free and unfettered access to the Council's Chief Executive and Chair of Audit and Governance Committee.

- Line management and performance appraisal of the HOIA by the Chief Executive includes feedback from the Chair of the Audit and Governance Committee.

- Where Internal Audit is responsible for an activity that could be considered auditable (such as the administration of Data Protection tasks, or Counter Fraud), safeguards to limit impairments of independence and objectivity will be put in place. These may include:
    - Obtaining Audit and Governance Committee approval of additional activities, where they are of significant importance or impact

- Informing the Audit and Governance Committee and/or senior management of additional activities, where they are of minor significance
- Clearly avoiding reference to independence or assurance in reports relating to additional activity, so that the additional activity is not confused with audit work
- Periodic review to confirm the arrangement continues to be appropriate, to be considered by the Audit and Governance Committee
- Requesting third parties to undertake independent assurance reviews of the additional activity on the Council's behalf.

- Internal Audit's Annual Plan is determined and approved by the Audit and Governance Committee, although input from senior management will be sought during the development of proposals.

6.3 At the individual auditor and engagement levels:

- Internal Audit officers must comply with the professional standards set out in Section 7

- Internal Audit officers must maintain an impartial and unbiased attitude, avoiding any conflict of interest. Internal Auditors will notify the HOIA immediately if they become aware of any conflict of interest or appearance of a conflict of interest.

- Where assurance is to be provided, any Internal Audit officer with a potential conflict of interest will not have responsibility for any part of the audit. Where Internal Audit is providing consultancy, the potential conflict of interest will be disclosed to senior management before work is commenced.

- Work shall not be allocated to Internal Audit officers who have had operational responsibility for the audited area within the last 12 months.

- Peer review of all assurance work will be undertaken before it is reported to management.

- Internal Audit officers will declare any offers any gifts, hospitality, inducements or other benefits from employees, clients, suppliers or other third parties, which may be accepted only on the express authorisation of the HOIA, having taken into account Council policies, conflicts of interest, and the appearance of bias.

7. PROFESSIONAL STANDARDS

7.1 All members of the Internal Audit team will comply with the professional standards as set out in the PSIAS:

- Definition of Internal Auditing
- Code of Ethics, including the four principles of:
  - integrity
  - objectivity
  - confidentiality
  - competency
- The Seven Principles of Public Life and

- The Public Sector Internal Audit Standards themselves

7.2 Internal Audit will safeguard information received in carrying out its duties. Any information gained during the course of the audit work will remain confidential, without limiting or preventing Internal Audit from reporting within the Council as appropriate. There will be no unauthorised disclosure of information unless there is a legal or professional requirement to do so. Confidential information will not be used for personal benefit.

8. INTERNAL AUDIT RESOURCES

8.1 Internal Audit must have appropriate, sufficient and effectively deployed resources in order to achieve the approved plan.

8.2 If the HOIA concludes that resources are insufficient, for example due to lack of staff or funding, this will be reported to the Chief Executive. If the position is not resolved and the level of resources will adversely impact on the provision of the annual audit opinion, the HOIA must report this to the Audit and Governance Committee, who have ultimate power to report this to Full Council.

8.3 The Head of Internal Audit is responsible for appointing the staff for the Internal Audit Service and will ensure that appointments are made in order to achieve the appropriate mix of knowledge, qualifications, experience, audit skills and other competencies.

8.4 The HOIA will ensure that Internal Audit officers complete Continuing Professional Development to develop and maintain the required mix of knowledge, skills and competencies. Internal Auditors training and personal development needs are established through an appraisal process.

9. INTERNAL AUDIT ACTIVITY AND DELIVERY

9.1 The HOIA will undertake and document an annual risk assessment, taking into account:

- The need to provide an annual audit opinion
- The Council's risk management framework
- Input and feedback from senior management
- The Council's strategies, key objectives, and risks

9.2 The HOIA will use the risk assessment, taking account of available resources and opportunities to add value, to develop an annual risk-based internal audit plan for the Audit and Governance Committee to review and approve prior to the commencement of each financial year.

9.3 The approved annual risk-based internal audit plan shall be kept under review during the year, and the HOIA may make adjustments to the plan in response the changes within the Council's business, risks, operations, programmes, systems or control environment. Significant adjustments to the approved annual risk-based internal audit plan will be agreed with the Audit and Governance Committee.

9.4 Formal audit reports will be issued at the completion of each individual audit assignment included in the approved annual risk-based internal audit plan. The report provides management with an assurance opinion on the adequacy of the reviewed internal control system to manage risks effectively, and details significant audit findings, conclusions and agreed management actions. Senior management and relevant Portfolio Holders receive copies of all audit reports.

9.5 Formal audit reports issued to management will also be provided to the Audit and Governance Committee as they are completed throughout the year.

9.6 Where a need to make improvements is identified in a formal audit report, the relevant Head of Service are responsible for ensuring actions are considered and agreed promptly.

9.7 The relevant Head of Service is responsible for ensuring that any agreed actions address and correct the identified weakness, and are completed promptly. Internal Audit monitors management's progress in completing action plans. Reports of progress against agreed actions will be provided to the Audit and Governance Committee throughout the year.

9.8 The HOIA will provide an annual summary of activity and an overall audit opinion to the Audit and Governance Committee. The report includes:

- The HOIA's annual audit opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control
- information on the performance of the Internal Audit Service
- significant issues related to the processes for controlling the activities of the Council.

The issue of this report is timed to support the annual review of the Council's Corporate Governance and production of the Council's Annual Governance Statement.

9.9 The HOIA, where appropriate and resources allow, may provide audit services for organisations other than East Suffolk Council. All work for external organisations shall be agreed in writing prior to commencement, and the authority for Internal Audit to operate within the external organisation agreed.

10. AUTHORITIY OF INTERNAL AUDIT

10.1 The Audit and Governance Committee, via approval of this Audit Charter and in line with the expectations of the Council's Constitution, endorses the authority of Internal Audit officers acting in proper pursuit of their duties.

10.2 The Head of Internal Audit has rights of:

- an unrestricted ability to plan and undertake audit assignments
- direct access to the Chair of the Audit and Governance Committee
- reporting directly and direct access to the Chief Executive
- direct access to all Councillors
- direct access to the Chief Finance Officer
- direct access to the Monitoring Officer

10.3 The Head of Internal Audit and Internal Audit officers are authorised to have:

- Unrestricted access to all functions, records, property, and personnel
- The necessary assistance of any officer within the Council to provide information or explanations as required
- The assistance of partner organisations and third party suppliers where contract terms include internal audit access rights.

11. QUALITY OF INTERNAL AUDIT

11.1 The Internal Audit team operates a Quality Assurance and Improvement Programme, with periodic assessments to confirm the service operates effectively. Results of internal and external assessments are shared with the Chair of the Audit and Governance Committee.

12. FRAUD AND CORRUPTION

12.1 The HOIA is also responsible for counter fraud activities, which are delivered by through a separate counter-fraud specialist team.

12.2 Responsibility for the prevention and detection of fraud and corruption is a matter for all employees. The Anti-Fraud and Corruption Strategy and other supporting counter fraud policies set out the Council's approach.

12.3 This Charter supports the approaches for reporting suspected or detected fraud, corruption, maladministration, irregularity, misappropriation or impropriety to the HOIA set out in the Anti-Fraud and Corruption Strategy and Whistleblowing Policy. Where there is a conflict in approach, the Anti-Fraud and Corruption Strategy and Whistleblowing Policy will take precedent.

12.4 The HOIA will decide, based on the specific circumstances of an allegation or case, whether reports of fraud or irregularity are to be investigated by either Internal Audit, Corporate Fraud, jointly, or with the support of external agencies such as the Police.

12.5 Where the routine work of Internal Audit highlights a risk of fraud, this shall be included in the resulting audit report and an appropriate action agreed with management.