MID SUSSEX
DISTRICT COUNCIL

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12 November 2018

Dear Councillor,

A meeting of **AUDIT COMMITTEE** will be held in the **COUNCIL CHAMBER** at these offices on **TUESDAY, 20TH NOVEMBER, 2018 at 7.00 pm** when your attendance is requested.

Yours sincerely,
KATHRYN HALL
Chief Executive

A G E N D A

		Pages
1.	To note Substitutes in Accordance with Council Procedure Rule 4 - Substitutes at Meetings of Committees etc.	
2.	To receive apologies for absence.	
3.	To receive Declarations of Interest from Members in respect of any matter on the Agenda.	
4.	To confirm the Minutes of the previous meeting.	
5.	To consider any items that the Chairman agrees to take as urgent business.	
6.	Review of Treasury Management Activity 1 April - 30 September 2018.	**3 - 14**
7.	Internal Audit - Monitoring Report 30 June 2018.	**15 - 18**
8.	Committee Work Programme	**19 - 20**
9.	Questions pursuant to Council Procedure Rule 10.2 due notice of which has been given.	

To: **Members of Audit Committee:** Councillors J Belsey (Chairman), R de Mierre (Vice-Chair), A Boutrup, T Dorey, Andrew Lea, L Stockwell and N Walker

REVIEW OF TREASURY MANAGEMENT ACTIVITY 1 APRIL – 30 SEPTEMBER 2018

REPORT OF: Peter Stuart, Head of Corporate Resources

Email: pamela.coppelman@adur-worthing.gov.uk Tel: 01903 221236

Wards Affected: All

Key Decision No

PURPOSE OF REPORT

1. The report attached as Appendix 1 sets out the Council's treasury management activity for the half year to 30 September 2018.

SUMMARY

2. All transactions are in order and the performance of the service has met the requirements of the Service Level Agreement (SLA) with our shared services provider.

RECOMMENDATIONS

3. **The Committee is requested to note the contents of the report**:

   (i) that no new borrowing has been necessary in the 6 months to 30th September 2018 and the outstanding borrowing has reduced from £12.698m at 31 March 2018 to £12.635m. An additional £5m will be repaid on 19th November 2018.

   (ii) the increase in investments from £31.55m at 31 March 2018 to £44.27m at 30 September 2018 (both figures exclude the £6m investment in the CCLA Local Authorities' Property Fund); and

4. **The Committee is requested to approve** the amendment of the Treasury Management Strategy Statement and the Annual Investment Strategy to remove the minimum sovereign credit rating requirement from investments in UK institutions. In the unlikely event that the UK's sovereign rating is downgraded, the Council must still be able to invest in UK banks and building societies.

BACKGROUND

5. The Treasury Management function of this Council has been provided by Adur and Worthing Councils as a shared service since October 2010. This has enabled the cost of the service to be reduced whilst giving access to specialist advice and the administration skills of a larger authority. The SLA was extended for a further three years from 18th October 2016.

6. The 2018-19 Treasury Management Half Year Report produced by the Group Accountant (Strategic Finance) is attached at Appendix 1. Members should note that this report format and level of detail is similar to that presented to the other authorities in the shared service and whilst it may appear to contain much in the way of industry knowledge, it would reward careful reading by those with an interest.

BACKGROUND

7. For those Members seeking a summary, the key points are that the shared service has adhered to all borrowing limits and counterparty lending limits approved in the Treasury Management Strategy Statement; interest earned on investments is significantly higher than forecast, due to a higher average cash flow balance, whilst interest on borrowing is in line with the budget.

8. The Group Accountant would welcome questions and queries from Members using the contact details above.

POLICY CONTEXT

9. The presentation of this report fulfils the requirements under the Council's treasury management policy to produce a half year report. Providing transparency and approval of the strategies contained in this report is an important part of the Council's statutory role. Treasury Management has become increasingly topical given the nature of the world's financial markets in recent years, and Members are expected to have a basic understanding of how the Council uses its reserves and cash flows which are in the stewardship of the Head of Corporate Resources.

OTHER OPTIONS CONSIDERED

10. None – this report is statutorily required.

FINANCIAL IMPLICATIONS

11. This report has no quantifiable financial implications. Interest payable and interest receivable arising from treasury management operations, and annual revenue provisions for repayment of debt, form part of the revenue budget but are not required to support the provision of services.

RISK MANAGEMENT IMPLICATIONS

12. This report has no specific implications for the risk profile of the Authority.

EQUALITY AND CUSTOMER SERVICE IMPLICATIONS

13. None

BACKGROUND PAPERS

- Treasury Management Strategy Statement & Annual Investment Strategy 2018/19 to 2020/21 (Council 28th March 2018), and Review of Treasury Management Activity 2017/18 (Audit Committee July 24th 2018)

- Code of Practice on Treasury Management (CIPFA, 2017) and Treasury Management in the Public Services Guidance Notes (CIPFA, 2018)

- The Prudential Code for Capital Finance in Local Authorities (CIPFA, 2017).

- Department for Communities & Local Government Investment Guidance (Revised) April 2018)

- Statutory MRP guidance (2018)

- Link Asset Services report template (October 2018)

APPENDIX 1

1. SUMMARY

This report summarises the Council's treasury management for the half year to 30 September 2018. The presentation of this report fulfils the requirements under the Council's treasury management policy.

2. BACKGROUND

2.1 Capital Strategy

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities will be required to prepare a Capital Strategy which is intended to provide the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

A report setting out our Capital Strategy will be taken to the full Council before 31st March 2019.

2.2 Treasury Management

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

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

Accordingly, treasury management is defined as:

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

3. INTRODUCTION

This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017).

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

3. Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.

4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee.

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first part of the 2018/19 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure and prudential indicators;
- A review of the Council's investment portfolio for 2018/19;
- A review of the Council's borrowing strategy for 2018/19;
- A review of any debt rescheduling undertaken during 2018/19;
- A review of compliance with Treasury and Prudential Limits for 2018/19.

4. ECONOMICS AND INTEREST RATES

*The following commentary has been supplied by **Link Asset Services Ltd**, the professional consultants for the Council's shared treasury management services provider. The context is significant as it describes the backdrop against which treasury management activity has been undertaken during the year.*

4.1 Economics update

UK. The first half of 2018/19 has seen UK economic growth post a modest performance, but sufficiently robust for the Monetary Policy Committee, (MPC), to unanimously (9-0) vote to increase Bank Rate on 2nd August from 0.5% to 0.75%. Although growth looks as if it will only be modest at around 1.5% in 2018, the Bank of England's August Quarterly Inflation Report forecast that growth will pick up to 1.8% in 2019, albeit there were several caveats – mainly related to whether or not the UK achieves an orderly withdrawal from the European Union in March 2019.

Some MPC members have expressed concerns about a build-up of inflationary pressures, particularly with the pound falling in value again against both the US dollar and the Euro. The Consumer Price Index (CPI) measure of inflation rose unexpectedly from 2.4% in June to 2.7% in August due to increases in volatile components, but is expected to fall back to the 2% inflation target over the next two years given a scenario of minimal increases in Bank Rate. The MPC has indicated Bank Rate would need to be in the region of 1.5% by March 2021 for inflation to stay on track. Financial markets are currently pricing in the next increase in Bank Rate for the second half of 2019.

As for the **labour market**, unemployment has continued at a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high in July, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 2.9%, (3 month average regular pay, excluding bonuses) and to a one month figure in July of 3.1%. This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 0.4%, near to the joint high of 0.5% since 2009. (The previous high point was in July 2015.) Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC were right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy. However, the MPC will need to tread cautiously before increasing Bank Rate again, especially given all the uncertainties around Brexit.

In the **political arena**, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

USA. President Trump's massive easing of fiscal policy is fuelling a (temporary) boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2%, (annualised rate), in quarter 1 to 4.2% in quarter 2, but also an upturn in inflationary pressures. With inflation moving towards 3%, the Fed increased rates another 0.25% in September to between 2.00% and 2.25%, this being four increases in 2018, and indicated they expected to increase rates four more times by the end of 2019. The dilemma, however, is what to do when the temporary boost to consumption wanes, particularly as the recent imposition of tariffs on a number of countries' exports to the US, (China in particular), could see a switch to US production of some of those goods, but at higher prices. Such a scenario would invariably make any easing of monetary policy harder for the Fed in the second half of 2019.

EUROZONE. Growth was unchanged at 0.4% in quarter 2, but has undershot early forecasts for a stronger economic performance in 2018. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of 2% for 2018, the horizon is less clear than it seemed just a short while ago.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

JAPAN - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

4.2 Interest rate forecasts

The Council's treasury advisor, Link Asset Services, has provided the following forecast:

Link Asset Services Interest Rate View											
	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
3 Month LIBID	0.75%	0.80%	0.80%	0.90%	1.10%	1.10%	1.20%	1.40%	1.50%	1.60%	1.60%
6 Month LIBID	0.85%	0.90%	0.90%	1.00%	1.20%	1.20%	1.30%	1.50%	1.60%	1.70%	1.70%
12 Month LIBID	1.00%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.60%	1.70%	1.80%	1.80%
5yr PWLB Rate	2.00%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%
10yr PWLB Rate	2.40%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%

The flow of generally positive economic statistics after the end of the quarter ended 30 June meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, to 0.75%. However, the MPC emphasised again, that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time but they declined to give a medium term forecast. We do not think that the MPC will increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. We also feel that the MPC is more likely to wait until August 2019, than May 2019, before the next increase, to be followed by further increases of 0.25% in May and November 2020 to reach 1.5%. However, the cautious pace of even these limited increases is dependent on a reasonably orderly Brexit.

The balance of risks to the UK

The overall balance of risks to economic growth in the UK is probably neutral.

The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

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

- Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March of a government which has made a lot of anti-austerity noise. This is likely to lead to friction with the EU when setting the target for the fiscal deficit in the national budget. Unsurprisingly, investors have taken a dim view of this and so Italian bond yields have been rising.
- Austria, the Czech Republic and Hungary now form a strongly anti-immigration bloc within the EU while Italy, this year, has also elected a strongly anti-immigration government. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position as a result of the rise of the anti-immigration AfD party. To compound this, the result of the Swedish general election in September 2018 has left an anti-immigration party potentially holding the balance of power in forming a coalition government. The challenges from these political developments could put considerable pressure on the cohesion of the EU and could spill over into impacting the euro, EU financial policy and financial markets.

- The imposition of trade tariffs by President Trump could negatively impact world growth. President Trump's specific actions against Turkey pose a particular risk to its economy which could, in turn, negatively impact Spanish and French banks which have significant exposures to loans to Turkey.
- Weak capitalisation of some European banks.
- Rising interest rates in the US could negatively impact emerging countries which have borrowed heavily in dollar denominated debt, so causing an investor flight to safe havens e.g. UK gilts.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- President Trump's fiscal plans to stimulate economic expansion causing a significant increase in inflation in the US and causing further sell offs of government bonds in major western countries.
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of QE, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.
- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

5. TREASURY MANAGEMENT STRATEGY STATEMENT and ANNUAL INVESTMENT STRATEGY UPDATE

The Treasury Management Strategy Statement (TMSS) for 2018/19 was approved by this Council on 28 March 2018. Other than the proposed removal of the minimum sovereign rating for the UK, there are no policy changes to the TMSS; the details in this report update the actual and forecast expenditure in light of the updated economic position and budgetary changes already approved.

6. THE COUNCIL'S CAPITAL POSITION (PRUDENTIAL INDICATORS)

This part of the report is structured to update:

- The Council's capital expenditure plans
- How these plans are being financed
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow
- Compliance with the limits in place for borrowing activity

6.1 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

	2018/19 Original Estimate	Actual at 30 Sept 2018	2018/19 Revised Estimate
	£m	£m	£m
Total capital expenditure	2.313	2.528	5.726

6.2 Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

It is no longer anticipated that the £20m capital receipt will be received in 2018/19.

	2018/19 Original Estimate	2018/19 Revised Estimate
	£m	£m
Total Capital Expenditure	2.313	5.726
Financed by:		
Capital receipts	0.179	0.179
Capital grants, S106 etc.	0.827	2.923
Revenue reserves and contributions	1.307	2.624
Total financing	2.313	5.726
Borrowing requirement	0.000	0.000

6. THE COUNCIL'S CAPITAL POSITION (PRUDENTIAL INDICATORS)

6.3 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. The table also shows the expected debt position over the period, which is termed the Operational Boundary.

	2018/19 Original Estimate	Actual at 30 Sept 2018	2018/19 Revised Estimate
	£m	£m	£m
Prudential Indicator Capital Financing Requirement			
CFR – non housing	5.130	25.243	25.130
Net movement in CFR	(20.227)	(0.114)	(0.227)
Prudential Indicator The Operational Boundary for external debt			
	Op Boundary	**Actual**	**Op Boundary**
Borrowing	28.000	12.635	28.000
Other long term liabilities	1.000	0.000	1.000
Total debt (year-end position)	29.000	12.635	29.000

6.4 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent. The Head of Corporate Resources reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

	2018/19 Original Estimate	Actual at 30 Sept 2018	2018/19 Revised Estimate
	£m	£m	£m
Borrowing	7.729	12.635	7.571
Other long term liabilities	0.000	0.000	0.000
Total debt	7.729	12.635	7.571
CFR (year-end position)	5.130	25.243	25.130

A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

6. THE COUNCIL'S CAPITAL POSITION (PRUDENTIAL INDICATORS)

6.4 Limits to Borrowing Activity

Authorised Limit for external debt	2018/19 Original Indicator	Actual at 30 Sept 2018	2018/19 Revised Indicator
	£m	£m	£m
Borrowing	30.000	12.635	30.000
Other long term liabilities	1.000	0.000	1.000
Total	31.000	12.635	31.000

7 INVESTMENT PORTFOLIO 2018/19

7.1 Investment performance

In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As shown by forecasts in section 4.2, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.75% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.

Excluding £6m in the Local Authority Property Fund, the Council held £44.27m of investments as at 30 September 2018, (£31.55m at 31 March 2018) and the investment portfolio yield for the first 6 months of the year is 0.95% p.a. against a benchmark rate of 0.71% for 6 month deposits (supplied by Link Asset Services). The Local Authority Property Fund average return was 4.23%.

The Head of Corporate Resources confirms that the approved limits within the Annual Investment Strategy were not breached during the first 6 months of 2018/19.

The Council's budgeted investment return for 2018/19 is £263k and performance for the year is currently forecast to be £90k above budget, due to much higher average cash balances than anticipated.

7.2 Investment Counterparties

The current investment counterparty criteria selection approved in the TMSS was amended by approval of the report submitted to the Audit Committee on 24th July 2018, together with the annual review of treasury management activity for 2017/18. The CCLA Public Sector Deposit Fund was added to the list of specified Money Market Funds, to take advantage of the best interest rates receivable on temporary liquidity. The list of UK banks was amended to include only the "ring-fenced" entities of those banks which split their business.

7 INVESTMENT PORTFOLIO 2018/19

7.3 Investments at 30 September 2018

Counterparty	Issue Date	Maturity Date	Principal	Current Interest Rate	Long Term Rating
Barclays Bank (RFB)	10.10.17	09.10.18	£1,000,000	0.679%	A
Blackrock MMF	n/a	n/a	£1,000,000	var	AAA
CCLA MMF	n/a	n/a	£3,000,000	var	AAA
Cheshire West & Chester C'cil	20.12.13	20.12.18	£2,000,000	2.30%	n/a
Close Brothers Ltd	29.03.18	29.03.19	£2,000,000	1.10%	A
Federated Investments MMF	n/a	n/a	£3,000,000	var	AAA
Goldman Sachs MMF	n/a	n/a	£260,000	var	AAA
Goldman Sachs Intern'l Bank	12.03.18	12.03.19	£1,000,000	1.175%	A
Goldman Sachs Intern'l Bank	03.04.18	03.04.19	£2,000,000	1.275%	A
Handelsbanken	n/a	n/a	£10,000	0.50%	AA
Invesco MMF	n/a	n/a	£3,000,000	var	AAA
Lloyds Bank (RFB)	05.06.18	05.06.19	£1,000,000	1.00%	A+
Lloyds Bank (RFB)	27.06.18	27.06.19	£1,000,000	1.00%	A+
London Borough of Islington	31.01.14	31.01.19	£1,000,000	2.30%	n/a
Monmouthshire Building Soc	03.05.17	02.11.18	£1,000,000	1.00%	Unrated
Monmouthshire Building Soc	23.05.17	23.11.18	£1,000,000	1.00%	Unrated
Monmouthshire Building Soc	05.09.17	05.03.19	£1,000,000	1.00%	Unrated
National Counties B'ding Soc.	10.04.18	11.04.19	£1,000,000	1.03%	Unrated
National Counties B'ding Soc.	15.05.18	16.05.19	£1,000,000	0.96%	Unrated
National Counties B'ding Soc.	27.06.18	27.12.18	£1,000,000	0.79%	Unrated
North Lincolnshire Council	09.03.18	09.04.19	£1,000,000	0.98%	n/a
Nottingham Building Society	05.09.17	05.09.19	£2,000,000	0.95%	Baa1
Nottingham Building Society	15.05.18	16.05.19	£1,000,000	0.96%	Baa1
Principality Building Society	10.04.18	11.04.19	£1,000,000	0.95%	BBB+
Progressive Building Society	20.04.17	18.04.19	£1,000,000	1.02%	Unrated
Progressive Building Society	27.09.18	27.09.18	£2,000,000	1.05%	Unrated
Saffron Building Society	15.02.18	14.02.19	£1,000,000	0.92%	Unrated
Saffron Building Society	26.02.18	25.02.19	£1,000,000	0.92%	Unrated
Saffron Building Society	03.04.18	03.04.19	£1,000,000	1.05%	Unrated
Santander UK	20.07.18	19.11.18	£4,000,000	0.70%	A
West Bromwich B'ding Soc.	28.09.18	14.02.19	£2,000,000	0.82%	Ba3
TOTAL			**£44,270,000**		

8. BORROWING

The Council's revised Capital Financing Requirement (CFR) for 2018/19 is £25.130m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. Table 6.4 shows the Council has borrowings of £12.635m. Capital expenditure in 2018/19 is funded from grants, capital receipts, contributions, reserves and revenue contributions. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.

No new external borrowing was undertaken from 1 April to 30 September 2018 and it is not anticipated that further borrowing will be undertaken during this financial year.

9 DEBT RESCHEDULING

Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates, and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

10 OTHER

10.1 UK banks – ring fencing

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group. While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

10.2 IFRS9 accounting standard

This accounting standard came into effect from 1st April 2018. It means that the category of investments valued under the available for sale category will be removed and any potential fluctuations in market valuations may impact onto the Surplus or Deficit on the Provision of Services, rather than being held on the balance sheet. This change is unlikely to materially affect the commonly used types of treasury management investments but more specialist types of investments, (e.g. pooled funds, third party loans, commercial investments), are likely to be impacted. However the Ministry of Housing, Communities and Local Government (MHCLG), is currently conducting a consultation for a temporary override to allow English local authorities time to adjust their portfolio of investments. The impact on the Council is likely to be minimal. Members will be updated when the result of this consultation is known.

10.3 Changes in risk appetite

The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy should be brought to members' attention in treasury management update reports.

10.4 Member Training

The treasury advisors for the shared treasury management service, Link Asset Services, provided a training session for Members on the 6th June 2018. The session included reviews of the Council's Balance Sheet and current debt and investment portfolios, as well an overview of developments in local government treasury management and UK economic data.

INTERNAL AUDIT – MONITORING REPORT 30th JUNE 2018

REPORT OF: Audit and Risk Manager
Contact Officer: Gillian Edwards
Email: gillian.edwards@midsussex.gov.uk Tel: 01444 477241
Wards Affected: All MSDC Wards
Key Decision: No
Report to: Audit Committee
2nd November 2018

Purpose of Report

1. The purpose of this report is twofold; to update the Committee on the progress of the 2018/2019 Internal Audit Plan and to report on the progress made in implementing previously agreed recommendations.

Recommendation

2. The Committee is asked to receive this report.

Background

3. Work Completed

Since the last meeting of this Committee in September, we have completed one audit, being Taxi and Private Hire Drivers Licences, for which we are able to provide Substantial Assurance.

This audit was undertaken after we identified during the most recent National Fraud Initiative data matching exercise that a number of taxi drivers were registered against households claiming SPD of 25%.

Council Tax bill is based on two adults living in the property as their main home. A discount of 25% applies when only one adult (aged 18 or over) lives in the property as their main home although for Council Tax purposes, some adults are not counted in working out the number of adults resident in a property. These include full time students and people who are severely mentally impaired.

In at least one case there was more than one taxi driver registered at an address. Where a taxi driver is living at a different address from that on his licence, the driver is in breach of the Taxi Licence which could be suspended.

Our testing confirmed that documentation produced by Taxi and Private Hire drivers was consistent with being resident at the addresses where the SPD was being claimed. We have therefore passed details of those who appear to be claiming SPD to the Council's Revenues and Benefits team for further investigation.

During this review, we also looked at the process for granting Taxi and Private Hire Licenses to confirm that all necessary requirements had been met and evidence was held to support this.

4. Work in Progress

The reviews in progress and other work that has been undertaken in the period are shown at Appendix A.

National Fraud Initiative (NFI) Data Matching – Update

At the last meeting of this Committee I advised that I would provide an update on the last National Fraud Initiative data matching exercise, being Council Tax SPD and the Electoral Register. This match is intended to identify persons who are claiming to live alone and who are claiming SPD, but where the Electoral Register indicates that more than one person is resident.

Since that meeting, the Business Unit Leader, Revenues and Benefits has identified a company through a procurement process for a wider SPD review that also investigates these data matches and we have passed the matches to this company for investigation. This work is ongoing and I will report the outcome of this work at the next meeting of this Committee in February 2019.

All work has been planned and allocated to Auditors and I am confident that the audit plan will be substantially complete by 31st March 2019.

5. High priority findings in this period

There were no high priority findings to report in this period.

6. Follow Up Audits:

We have not completed any follow up audits during this period.

Background Papers

- Internal Audit reports relating to 2018/2019
- Working papers relating to 2018/2019

Appendix A

Internal Audit Plan 2018/2019

Progress Report as at 2nd November 2018

Audit	Audit Plan Year	Audit Opinion- Assurance	Number of High Priority Findings	Comments
A. Work Completed in the Current Period				
Taxi and Private Hire Licences	2018/19	Substantial		
B. Work In Progress				
NFI Data Matching	2018/19			
Payroll	2018/19			
XCD Post Implementation Review	2018/19			
Data Matching Extraction 2019	2018/19			
Follow Ups				

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COMMITTEE WORK PROGRAMME 2018/19

REPORT OF: Tom Clark, Head of Regulatory Services
Contact Officer: Alison Hammond, Member Services Officer
Email: alison.hammond@midsussex.gov.uk Tel: 01444 477227
Wards Affected: All
Key Decision: No

Purpose of Report

1. For the Audit Committee to note its Work Programme for 2018/19.

Summary

2. Members are asked to note the attached Work Programme. The Work Programme will be reviewed as the final piece of business at each meeting, enabling additional business to be agreed as required.

Recommendations

3. The Committee are recommended to note the Committee's Work Programme as set out at paragraph 5 of this report.

Background

4. It is usual for Committees to agree their Work Programme at the first meeting of a new Council year and review it at each subsequent meeting to allow for the scrutiny of emerging issues during the year.

The Work Programme

5. The Committee's Work Programme for 2018/19 is set out below:

Meeting date	Item
25 February 2019	Audit Planning Report Treasury Management Strategy Capital Strategy Internal Audit Monitoring Report Grants Certification Committee Work Programme

Policy Context

6. The Work Programme should ideally reflect the key priorities of the Council, as defined in the Corporate Plan and Budget.

Financial Implications

7. None.

Risk Management Implications

8. None.

Background Papers

None.

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