TOWER HAMLETS

AUDIT COMMITTEE

Wednesday, 4 February 2015 at 7.30 p.m.

MP701, Town Hall, Mulberry Place, 5 Clove Crescent, London, E14 2BG

This meeting is open to the public to attend.

Members:
Chair: Councillor Amina Ali
Vice-Chair: Councillor Ayas Miah

Councillor Ohid Ahmed, Councillor Rachel Blake, Councillor Alibor Choudhury, Councillor Gulam Robbani and Councillor Andrew Wood

Deputies:
Councillor Craig Aston, Councillor Peter Golds, Councillor Andrew Cregan, Councillor Julia Dockerill, Councillor Denise Jones and Councillor Candida Ronald

[The quorum for this body is 3 Members]

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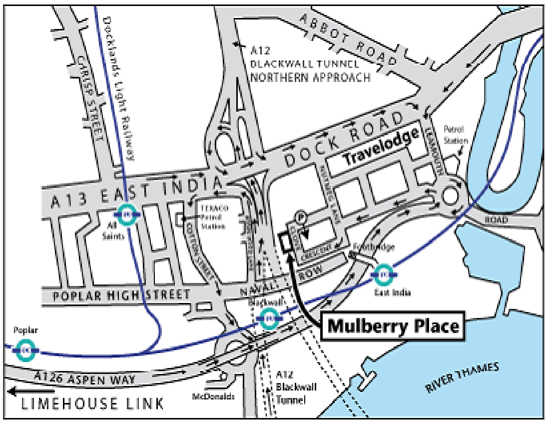

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Next Meeting of the Committee:
Tuesday, 17 March 2015 at 7.00 p.m. to be held in the MP701, Town Hall, Mulberry Place, 5 Clove Crescent, London, E14 2BG

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DECLARATIONS OF INTERESTS - NOTE FROM THE MONITORING OFFICER

This note is for guidance only. For further details please consult the Members' Code of Conduct at Part 5.1 of the Council's Constitution.

Please note that the question of whether a Member has an interest in any matter, and whether or not that interest is a Disclosable Pecuniary Interest, is for that Member to decide. Advice is available from officers as listed below but they cannot make the decision for the Member. If in doubt as to the nature of an interest it is advisable to seek advice **prior** to attending a meeting.

Interests and Disclosable Pecuniary Interests (DPIs)

You have an interest in any business of the authority where that business relates to or is likely to affect any of the persons, bodies or matters listed in section 4.1 (a) of the Code of Conduct; and might reasonably be regarded as affecting the well-being or financial position of yourself, a member of your family or a person with whom you have a close association, to a greater extent than the majority of other council tax payers, ratepayers or inhabitants of the ward affected.

You must notify the Monitoring Officer in writing of any such interest, for inclusion in the Register of Members' Interests which is available for public inspection and on the Council's Website.

Once you have recorded an interest in the Register, you are not then required to declare that interest at each meeting where the business is discussed, unless the interest is a Disclosable Pecuniary Interest (DPI).

A DPI is defined in Regulations as a pecuniary interest of any of the descriptions listed at **Appendix A** overleaf. Please note that a Member's DPIs include his/her own relevant interests and also those of his/her spouse or civil partner; or a person with whom the Member is living as husband and wife; or a person with whom the Member is living as if they were civil partners; if the Member is aware that that other person has the interest.

Effect of a Disclosable Pecuniary Interest on participation at meetings

Where you have a DPI in any business of the Council you must, unless you have obtained a dispensation from the authority's Monitoring Officer following consideration by the Dispensations Sub-Committee of the Standards Advisory Committee:-

- not seek to improperly influence a decision about that business; and
- not exercise executive functions in relation to that business.

If you are present at a meeting where that business is discussed, you must:-

- Disclose to the meeting the existence and nature of the interest at the start of the meeting or when the interest becomes apparent, if later; and
- Leave the room (including any public viewing area) for the duration of consideration and decision on the item and not seek to influence the debate or decision

When declaring a DPI, Members should specify the nature of the interest and the agenda item to which the interest relates. This procedure is designed to assist the public's understanding of the meeting and to enable a full record to be made in the minutes of the meeting.

Where you have a DPI in any business of the authority which is not included in the Member's register of interests and you attend a meeting of the authority at which the business is considered, in addition to disclosing the interest to that meeting, you must also within 28 days notify the Monitoring Officer of the interest for inclusion in the Register.

Further advice

For further advice please contact:-

Meic Sullivan-Gould, Monitoring Officer, Telephone Number: 020 7364 4801

APPENDIX A: Definition of a Disclosable Pecuniary Interest

(Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012, Reg 2 and Schedule)

Subject	Prescribed description
Employment, office, trade, profession or vacation	Any employment, office, trade, profession or vocation carried on for profit or gain.
Sponsorship	Any payment or provision of any other financial benefit (other than from the relevant authority) made or provided within the relevant period in respect of any expenses incurred by the Member in carrying out duties as a member, or towards the election expenses of the Member. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.
Contracts	Any contract which is made between the relevant person (or a body in which the relevant person has a beneficial interest) and the relevant authority— (a) under which goods or services are to be provided or works are to be executed; and (b) which has not been fully discharged.
Land	Any beneficial interest in land which is within the area of the relevant authority.
Licences	Any licence (alone or jointly with others) to occupy land in the area of the relevant authority for a month or longer.
Corporate tenancies	Any tenancy where (to the Member's knowledge)— (a) the landlord is the relevant authority; and (b) the tenant is a body in which the relevant person has a beneficial interest.
Securities	Any beneficial interest in securities of a body where— (a) that body (to the Member's knowledge) has a place of business or land in the area of the relevant authority; and (b) either— (i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or (ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the relevant person has a beneficial interest exceeds one hundredth of the total issued share capital of that class.

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LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE AUDIT COMMITTEE

HELD AT 7.05 P.M. ON TUESDAY, 16 SEPTEMBER 2014

TOWN HALL, MULBERRY PLACE, 5 CLOVE CRESCENT, LONDON, E14 2BG

Members Present:

Councillor Amina Ali (Chair)
Councillor Ayas Miah (Vice-Chair)
Councillor Rachel Blake
Councillor Andrew Wood

Other Councillors Present:

Councillor Candida Ronald

Apologies:

Councillor Ohid Ahmed, Councillor Alibor Choudhury and Councillor Gulam Robbani

Officers Present:

Chris Holme	–	(Acting Corporate Director - Resources)
Catriona Hunt	–	(Head of Corporate Human Resources)
Minesh Jani	–	(Head of Audit and Risk Management , Resources)
Bharat Mehta	–	(Audit Manager, Resources)
Kevin Miles	–	(Chief Accountant, Resources)
Tony Qayum	–	(Anti Fraud Manager, Internal Audit, Resources)
Brian Snary	–	Financial Accountant - Resources
Nishaat Ismail	–	(Committee Officer, Democratic Services, Directorate Law Probity and Governance)
Angus Taylor	–	(Principal Committee Officer, Democratic Services, Law Probity & Governance)

Others In Attendance

Andrew Sayers	–	(Partner, KPMG)
Antony Smith	–	(Senior Manager, KPMG)
Elizabeth Humphrey	–	(Trainer, CIPFA)
Daniel Hallary	–	(Senior Manager, Mazars)

COUNCILLOR AMINA ALI (CHAIR) IN THE CHAIR

1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

No declarations of Disclosable Pecuniary Interest or other declarations of interest were made.

2. MINUTES OF THE PREVIOUS MEETING(S)

Matter arising from minutes of 30 June 2014 Audit Committee (AC)

Referencing page 3/ para 4/ bullet 3 of the minute pertaining to agenda item 5.1 [page 7 of agenda] an AC member noted that the Authority did not benchmark its accounts against other local authorities. The Acting Corporate Director, Resource explained the Council's financial position is bench marked with other authorities and agreed to present the bench marking results for the 2014/15 accounts in due course.

The Chair **Moved** and it was:-

Resolved

That the unrestricted minutes of the ordinary meeting of the Audit Committee, held on 30th June 2014, be agreed as a correct record of the proceedings, and the Chair be authorised to sign them accordingly.

Action by:
Nishaat Ismail (Committee Officer, Democratic Services, LPG)

3. KPMG ITEMS FOR CONSIDERATION

3.1 Interim report to those charged with governance (ISA 260) 2013/14

Andrew Sayers, representing External Auditors KPMG introduced, and highlighted key points, in the report which summarised the key findings arising from:-

- KPMG work to date at LBTH in relation to the Authority's 2013/14 financial statements and those of the Local Government Pension Scheme it administered.
- Work undertaken to support KPMG's 2103/14 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources.

Points highlighted by Andrew Sayers included:-

- That given the correlation between matters being examined by the PricewaterhouseCoopers (PwC) inspection, being undertaken for the Secretary of State for Communities and Local Government, and areas in scope for audit by KPMG, the Authority's external auditor, [in relation to the financial statements for 2013/14 and reaching a conclusion on the Authority's financial arrangements in place for securing economy, efficiency and effectiveness in its use of resources for 2013/14], the report before the Audit Committee was interim pending KPMG consideration of the outcome of the PwC Inspection report. In the period leading up to PwC Inspection report, KPMG had focused on undertaking other normal planned audit work and activities to reach a Value for Money conclusion.

- The majority of the planned audit work had been completed and based on this KPMG had not identified any matters that would adversely impact on its opinion of the Authority's financial statements; similarly for the Pension Fund.
- During the KPMG audit the Authority had identified two significant adjustments to the financial statements, which related to the grossing up of debtors and creditors, and the late notification of a creditor by an NHS organisation. The first had no impact on the net worth of the General Fund and the latter was covered off by an ear-marked reserve.
- The KPMG audit had identified a significant risk arising from the implementation of the General Ledger system, however based on the outcome of audit testing a conclusion had been reached that outputs from the GL system could be relied on in auditing the financial statements.
- The audit of property, plant and equipment, which was an inherently risky balance due to the potential for impairment/ valuation changes and required judgement/ estimation uncertainty; the audit had not identified any significant issues; however a recommendation on the future approach to valuations had been made.
- There had been significant changes in the accounting treatment of National Non-Domestic Rates and consequently this area had been an audit focus. No significant issues had been identified.
- Risk had been identified in respect of the triennial valuation of the Pension Fund relating to inaccurate data provided to the actuary impacting on actuarial figures in the accounts. Work completed to test source data and controls on accuracy had not identified any issues.
- The quality of the accounts and supporting papers was good and audit queries were dealt with efficiently.
- The Authority's control environment was effective, however a weakness had been identified in that key reconciliations [bank account and payroll] had not been completed on a regular basis during 2013/14. This was a high risk matter and a recommendation had been made to mitigate this in future.
- Outstanding issues before a final audit opinion could be given were outlined.
- The methodology to reach a Value for Money conclusion was outlined, but until the PwC Inspection report was considered no conclusion could be made. It was noted that savings plans appeared robust and achievable, although there was risk for all local authorities in delivering these.
- AC members were signposted to matters requiring completion before an audit certificate could be issued. It was noted that no formal objection to the Authority's 2013/14 financial statements had been received to date.

- Assurance of KPMG independence in relation to the audit of the financial statements was given.

A discussion followed which focused on clarification being sought and given on the following points:-

- The impact on finalisation of the KPMG audit and report of waiting for the PwC Inspection report. *The statutory deadline for finalisation of the Authority's accounts was 30 September and KPMG would not be able to sign these off by then. KPMG needed to consider the findings of the PwC Inspection report and also consider undertaking additional audit work arising from it. KPMG had focused its audit to date on completion of standard audit work prior to the PwC Inspection report.*
- The implications of missing the statutory deadline for finalisation of the accounts. *The final accounts would still be presented to the AC for noting, however there were no formal sanctions beyond adverse publicity.*
- The adjustments amounting to £5 million relating to grossing up of debtors and creditors (£3.7 million) and the late notification of a creditor by an NHS organisation (£1.3 million). *The debtors and creditors should be grossed up not netted off and this had not occurred, however neither matter impacted on the net worth of the General Fund. The latter also accounted for the difference in pre-audit* (£8 million) *and post-audit transfers* (£6.7 million) *to earmarked reserves reported on page 6 of the KPMG Interim report.*
- Referencing Appendix 1/ recommendation 3 relating to Land and Building valuations, how would the recommendation be progressed? Was there evidence of under-valuation? Was the Authority not required to undertake regular valuations, and was infrequent valuation best practice? Given low valuations was there an appropriate link between valuations and house prices? *This issue related to periodic year-end property valuations and the audit had examined impairment and upward trends and a need to tidy up the General Ledger going forward had been highlighted. No under-valuation had been identified, however there was a risk of this. The Authority had undertaken valuations in line with policy and best practice of a valuation every 5 years taking account of material changes in the intervening period. Property valuations were relatively stable although house prices were not. The Audit had identified that the Authority should carry out more effective valuations and how to achieve this.*
- Concern expressed that a recurring trend of non-completion of key reconciliations had been identified. This was basic accountancy and, although noting that implementation of the Agresso accounting system had significantly impacted the ability to undertake reconciliations, assurance sought that regular reconciliation of balances would be undertaken going forward. *The problem caused by Agresso was briefly outlined, however processes were now being put in place for regular reconciliations of the bank account and payroll.*
- The calculation of a materiality level of £23 million for the Authority's financial statements and audit differences of £1.1 million being deemed insignificant.
- The identification by the KPMG audit that not all Budget variances over £250k had an adequate explanation, and AC member consideration that

the threshold for such variances was too high and departments should be examining variances of a lesser scale. *A monthly analysis was undertaken and the Interim Corporate Director Resources expected departments to signpost variances over £100k. Going forward, departments had been asked to provide a much better explanation of variances throughout the year, in response to the audit recommendation. However the corporate variance threshold of 3250k needed to be placed in the context of a £1.2 billion gross spend.* Noting the Officer response an AC member commented that he expected information to be available on £5k variances if the AC wished to dive down that far.

- Referencing Appendix 2/ recommendation 1 relating to the completion of the corporate governance review and expeditious addressing of any findings a progress update was sought. *Some elements of the review, which was currently being undertaken, with the support of the Local Government Association, had been completed, and the Head of Paid Service was leading. A written update would be sought in line with the commitment to keep KPMG and the AC briefed.*
- Requested that **a brief statement summarising the current financial position of the Authority be presented quarterly to the AC**. *Interim Corporate Director Resources undertook to provide this from available benchmarking information.*
- Requested that the **summary statement of accounts**, currently undergoing final checks and intended for presentation with the final set of accounts to the AC, **be circulated to all AC members**.

The Chair **Moved** and it was:-

<u>Resolved</u>

That the contents of the Interim report to those charged with governance (ISA 260) 2013/14, be noted.

Action by:
Chris Holme (Acting Corporate Director Resources)

4. TOWER HAMLETS ITEMS FOR CONSIDERATION

4.1 Quarterly Assurance Report

Minesh Jani (Service Head Risk Management) introduced, and highlighted key points, in the report which:-

- Summarised the work undertaken in the period June to August 2014.
- Set out the assurance rating of each audit finalised in the period together with an overall assurance rating. He also reported the following audit performance:
- Informed the AC that the report informed the annual internal audit opinion given at the end of each financial year.

Points highlighted by Minesh Jani included:-

- 18 audit assignments had been undertaken in the last 3 months 13 giving substantial assurance and 5 limited assurance. These had been focused in areas of moderate or extensive significance to the authority as defined in para 3.2 of the report.
- That performance of the Internal Audit Service to July 2014, as measured by the set Performance Indicators, was below target; with the detail set out at para 5.6 of the report summarised for AC members.
- The audits assigned limited assurance were summarised in detail for AC members:

1. Declaration of Staff Interests - Systems Audit
   - Selected for audit because of the onus on staff, under the Employee Code of Conduct, to declare interests which conflicted with their employment by the Authority; and also the introduction of an online self-serve system to record staff Declarations of Interest (DOIs).
   - Assigned limited assurance due to low percentage of staff found to complete DOIs; and also in a sample tested in a separate NFI audit 5 of 10 staff completed a DOI on secondary employment.
   - Arrangements needed to check and monitor declarations and therefore regular HR reports to line managers recommended with an associated responsibility to monitor compliance.

   A brief discussion followed which focused on clarification being sought and given on the following points:-
   - Concerning the location of the 5 staff not declaring secondary employment; also whether staff working in their own time to top up their income should really be viewed as a serious concern. *The staff were located in schools. DOIs were an important matter, and the laborious manual reporting/ monitoring system had been streamlined with the online system; this was now being improved with regular monitoring reports in each directorate*
   - Whether staff had been made aware of their obligation and the new online system and given clear advice as to completing a DOI. Staff received regular reminders via email and the intranet. *A new form was being piloted with a view to going live in October and this was accompanied by clear advice and examples.*

2. Photocopying and Printing Contract Monitoring - Systems Audit
   - Selected for audit because of the Authority's new 3 year rental agreement for supply of Multi-Functional Devices (MFDs) and a managed print Service Level agreement both of which came with high start up costs.
   - Assigned limited assurance because contract monitoring arrangements were found not to be sufficiently robust, the supplier's invoicing system was complex with risk of duplicate payments and errors, and a discrepancy between the number of MFDs on the supplier list and those on the LBTH asset register.
   - Chris Holme (Acting Corporate Director Resources) commented that all the necessary steps to mitigate the risk in this area had been

taken, and there were now regular contract monitoring meetings. Were the area audited now he was confident the level of assurance would be substantial.

3. Debtors - Systems Audit
   - Selected for audit to provide assurance that the control systems in this area were robust and assess potential consequences should control weaknesses be identified, in the context of the introduction of the Agresso finance system in April 2013.
   - Assigned limited assurance due to findings relating to the implementation of the new system:-
     - Reconciliations between the general ledger and the debtors system not performed on a timely basis.
     - Reminders for overdue invoices not issued and therefore debt recovery action not taken in 2013/14.
     - Unallocated payments to accounts delaying debt recovery and creating potential for unnecessary debt recovery action.
     - Accurate information not supplied by Agresso system.
   - Chris Holme (Interim Corporate Director Resources) commented that the audit findings were a symptom of the roll out of a brand new element of the new Agresso finance system. All the recommendations had now been implemented and much improved systems were now in place. NNDR collection had not been impacted.

   A brief discussion followed which focused on clarification being sought and given on the following points:-
   - Noting the Officer assurance that measures were now in place to address the weaknesses identified, why had the risks of the new finance system not been factored in before implementation. *Officers had been aware of the risk but there had also been a need to sign off the contract with the ICT provider and not doing so raised other risks.*
   - Concern expressed about slow debt recovery arising from implementation of the Agresso system and that reminders to pay overdue invoices had not been sent. *Recovery rates were very high and higher than the previous year which provided comfort that the weaknesses were being mitigated.*
   - The reason why NNDR and Council Tax had not been similarly impacted as these too were debtors.

4. Pest Control - Systems Audit
   - Selected for audit to provide assurance that the control systems in this important area were robust and assess potential consequences should control weaknesses be identified.
   - Assigned limited assurance because of audit findings:-
     - Pest control services provided free to a number of properties due to inaccurate records as to ownership.
     - SLAs with RSLs out of date and therefore prices too.
     - Identified that approximately 50% of jobs undertaken April 2012 to July 2013 remained open on system records.

- Non-retention of supporting documentation for calculation of charges, with potential for under-charging.
- OAP entitlement to a free service open to abuse as no verification of householder OAP status undertaken.

An AC member proposed and it was agreed that **discussion of the audit findings be deferred to the next meeting** to ensure Officers from the service were present to answer questions the AC might have.

5. Kobi Nazrul Primary School
   - Selected for audit to provide assurance that there were effective controls over administration and financial management, and assigned limited assurance because of audit findings set out in Appendix 2 to the report.
   - AC members were informed that audits were underway at a number of schools and an annual report on schools would be received at the AC in December.
   - Clarification was sought and given as to whether Kobi Nazrul School had responded to the audit findings. *The Head Teacher had welcomed the audit findings and agreed the recommendations would be implemented.*

Treasury Management - Systems Audit

- Clarification sought and given as to why the audit had been assigned substantial assurance, given that in 9 of 20 transactions examined key information was not available. Commented also that it was difficult to believe the statement that this was due to bank non-retention after 6 months. *Minesh Jani (Service Head Risk Management) responded that he was confident systems were in place for a segregation of duties, so that staff carrying out treasury management transactions could not also approve these. However key information to demonstrate the segregation had been missing, and a follow up audit would be needed to establish whether the segregation had been applied.*

Budgetary Control - Systems Audit

- Clarification sought and given as to the proportion of the total number of budget holders comprised by the 96 budget holders not competing budget returns throughout the year, and similarly for the 341 budget holders not completing these for between 9-11 months. Also whether the problem related to a particular department. *There were 1200 budget holders in total and work was being undertaken to improve performance on budget returns. There were currently 38 budget holders not providing a monthly return and these were evenly spread across the 3 main directorates (CLC, D&R and ESCW).*

Tower Hamlets Homes - Key financial systems

Referencing the reporting that all of THH's funds were invested with one organisation posing a risk for THH should it fail, clarification sought as to the amount invested and the name of the organisation it was invested with. ***Written response to be provided (Action MJ)***

The Chair **Moved** the recommendation as set out in the report and it was:-

Resolved

That the contents of the report, and assurance opinion assigned to the systems reviewed during the period, be noted.

Action by:
Minesh Jani (Head of Risk Management and Audit)

4.2 Annual Anti -Fraud Report 2013-14

Tony Qayum (Corporate Fraud and Governance Manager) introduced, and highlighted key points, in the report which:-

- Provided an update of reactive and Anti-Fraud work undertaken during 2013/14.
- Informed AC members of the activity and areas of investigation and work undertaken by Corporate Anti – Fraud Team (CAFT).

Points highlighted by Tony Qayum included:-

- Signposting AC members to:-
  - The staff resources allocated to anti-fraud activities set out in the table at para 3.2 of the report.
  - Appendix A which set out the background to and legal basis for the National Fraud Initiative (NFI); also information about the 2012/13 NFI and going forward.
  - Appendix B which summarised arrangements for the transfer of existing Housing Benefit Fraud (HBF) investigation services to the Department for Work and Pensions (DWP) and briefly outlined the need for future consideration of the resourcing implications for some areas of fraud investigation which were currently bi-products of HBF investigations.
- Key matters arising from the Service Outturn for 2013-14, and in particular that training sessions had been run for staff and external bodies/visitors on Anti- Fraud and Corruption matters (and more were planned for the financial year), together with training exercises with the Risk Management Service and a joint training session for Members. An optional training session on the anti-fraud work undertaken by the authority and the impact of fraud would be run in October, and the role of Members would be covered.
- The success of the NFI for LBTH was summarised including the identification of over £700,000 of fraud and potential error. The initiative had existed for some years and had always yielded significant value.
- The continued provision of monthly governance reports to the Corporate Director of Resources and Monitoring Officer which provided an early

warning of issues arising from CAFT activity comfort provided by investigations.

- Good performance from Housing Benefits Investigations with:
    - A large increase in sanctions achieved: 151 in 2013/14 with 160 anticipated in 2014/15.
    - A rise in court convictions from 42 to 48 in 2013/14 with 60 anticipated in 2014/15.
    - A large increase in fraud and potential error from approximately £600k in 2012/13 to £825k in 2013/14. This reflected the level of housing benefit managed by the Authority but also highlighted the need for and added value provided by investigation.
- Good performance on Social Housing recoveries. LBTH had been the first authority to apply for funding to address the abuse of social housing and each year a team of 3 staff successfully identified significant levels of sublets which deprived the homeless of accommodation. A data matching exercise had identified significant numbers of matches that needed investigation and 43 recoveries had been achieved in 2013/14 as well as prevention of 3 illegitimate Right to Buy (RTB) purchases 1n 2013/14 and 12 in 2014/15 with the associated discount savings. There was potential for this area of fraud to double by year end. However Government funding would stop in the near future and the resourcing of this important work needed expeditious consideration.

A discussion followed which focused on clarification being sought and given on the following points:-

- Referencing para 8.3, consideration that the small team staff that undertook social housing recovery work provided excellent value for money given their track record of success, and it was obvious that funding needed to be found to continue the work when Government funding stopped. *Minesh Jani (Service Head Risk Management) responded that a funding arrangement with the Homelessness Service was being looked at to ensure the service continued. Chris Holme (Acting Corporate Director Resources) added that 2 funding bids had been submitted to DCLG for anti-fraud work and the Authority had taken a lead on coordinating the work/ data sharing of local authorities in East London. The Social Housing Recovery service would continue to be funded going forward, as preventing criminal offences was a priority for the authority.*
- Clarification was sought and given as to the value of social housing recovery per member of staff to assist AC members in quantifying what might be achieved by an increase in resources in this area. Greater partnership working in this area was also discussed. *Three members of staff would maintain the current service and value derived from it. It was an area that was difficult to quantify for partnership working arrangements partly because in addition to investigation work much legal work followed a successful investigation.*
- Noted that *the area of illegal sub-letting of Council property was fast becoming an a focus for hardened criminals and some authorities such as Kensington and Chelsea were devoting significant resources to mitigate this and some RSLs had a full time position devoted to it.*

- Concern expressed at the significant increase in attempted illegitimate RTB purchases between last year and this year. *There was an incentive for the authority to prevent these due to up to £100k of discount applying to each RTB.*
- Whether the transfer of existing HBF investigation services and associated funding to the DWP was irreversible. *Yes the service/ staff/ funding would transfer. Data sharing with the DWP had proven difficult in the past and it was in the interest of the DWP for a local team to provide information. However the funding bid to DCLG for partnership working on anti-fraud work by 6 East London Boroughs encompassed this area.*

The Chair **Moved** the recommendation as set out in the report and it was:-

Resolved

That the contents of the report, be noted.

4.3 Treasury Management Activity for Period Ending 31 July 2014

Kevin Miles (Chief Accountant) introduced, and highlighted key points, in the report which:-

- Detailed treasury management activity for the financial year to end of July 2014.
- Advised AC members of that the Treasury Management Strategy (TMS) and Prudential Indicators agreed by full Council in February 2014 continued to be appropriate, and treasury activities had not resulted in breach of the approved limits. However a mid-year review of the TMS would be considered by full Council in November.
- Detailed the current credit criteria adopted by the Corporate Director of Resources, and also the current investment strategy and projected investment returns.

Points highlighted by Kevin Miles included:-

- At the end of July the Authority had investments of approximately £330 million which was approximately £180 million higher than the projected average cash balance of £150 million.
- Officers anticipated that the cash balance would reduce as expenditure on the capital programme picked up through the remainder of the financial year.
- The current strategy was not to have too much money invested in longer term investments, so as to allow the Authority to take advantage of the potential increase in interest rates.
- The current average return on investment stands at 0.69%, and was on target to achieve budgeted cash return on assets of £1.6 million for 2014/15.

A discussion followed which focused on clarification being sought and given on the following points:-

An AC member considered that an average 0.69% return on investments of £330 million appeared low. It was acknowledged that interest rates were low at the moment but, it was understood that 6% interest was offered by Lloyds for a 30 day deposit. Consideration also that the proportion of investments allocated to the various maturity periods was not appropriate and more could be yielded from shorter term investments. Accordingly benchmarking of investment returns with other local authorities (LA's) was needed. *Capita was the Authority's benchmarking partner and it advised that the Authority was achieving as good a return on investment as other LAs and it was slightly lower than institutions were achieving.*
Although the Authority could borrow to repay what it owed, large penalties offset the benefits of that approach. There is a large loan with Barclays. If Barclays request an increase in the interest rate then the Authority can replay without penalty.
Clarification also sought as to which organisation the Authority used short term deposits overnight as it was understood that other LAs used Ignis, but it was not mentioned in the report. *It was likely these investments were spread over a number of banks however* ***a written response would be provided****.*
What was the Authority's position in relation to Royal Bank of Scotland (RBS)?. *RBS was part of the Nat West group and it was sensible to take advantage of the interest rates it offered. However the Government might reduce support for RBS in future years, or even sell it back to the private sector, and this must be borne in mind. Although RBS offered a better return than other banks, and the Authority was in a similar position to others in relation to it, it was advisable not to lock money away for too long.*
Assurance sought and given that the Authority was not exposed to fluctuation in Foreign Exchange rates.

The Chair **Moved** the recommendation as set out in the report and it was:-

Resolved

That the contents of the Treasury Management Activity report for the period ending 31 July 2014, be noted.

Action by:
Kevin Miles (Chief Accountant)

5. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT

Nil items.

The meeting ended at 8.30 p.m.

Chair, Councillor Amina Ali
Audit Committee

REPORT TO:	DATE	CLASSIFICATION	REPORT NO.	AGENDA NO.
Audit Committee	**4th February 2015**	**Unrestricted**		
REPORT OF: **Corporate Director, Resources** ORIGINATING OFFICER(S): **Head of Risk Management and Audit**		**Quarterly Assurance Report** Ward(s) Affected: **N/A**		

1. SUMMARY

1.1. This report summarises the work of Internal Audit for the period September 2014 to November 2014.

1.2. The report sets out the assurance rating of each audit finalised in the period and gives an overall assurance rating. The quarterly assurance report feeds into the annual internal audit opinion which will be produced at the end of the financial year.

2. RECOMMENDATION

2.1. The Audit Committee is asked to note the contents of this report and to take account of the assurance opinion assigned to the systems reviewed during the period.

3. Background

3.1. From April 2005, we have assigned each review one of four ratings, depending upon the level of our findings. The ratings we use are: -

Assurance	Definition
Full	There is a sound system of control designed to achieve the system objectives, and the controls are being consistently applied;
Substantial	While there is a basically sound system there are weaknesses which put some of the control objectives at risk or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk;
Limited	Weakness in the system of controls are such as to put the system objectives at risk or the level of non-compliance puts the system objectives at risk;
Nil	Control is generally weak leaving the system open to significant error or abuse, or significant non-compliance with basic controls leaves the system open to error or abuse.

3.2. In addition, each review is also considered in terms of its significance to the authority in line with the previously agreed methodology. The significance of each auditable area is assigned, based on the following factors: -

Significance	Definition
Extensive	High Risk, High Impact area including Fundamental Financial Systems, Major Service activity, Scale of Service in excess of £5m.
Moderate	Medium impact, key systems and / or Scale of Service £1m- £5m.
Low	Low impact service area, Scale of Service below £1m.

4. Overall Audit Opinion

4.1. Overall, based on work performed in the year to date, I am able to give a substantial level of assurance over the systems and controls in place within the authority.

5. Overview of finalised audits

5.1. Since the last Assurance Report that was presented to the Audit Committee in September 2014, eighteen final reports have been issued. The findings of these audits are presented as follows:

- Chart 1 below summarises the assurance rating assigned by the level of significance of each report.
- Appendix 1 provides a list of the audits organised by assurance rating and significance.
- Appendix 2 provides a brief summary of each audit.

5.2. **Members are invited to consider the following:**

- The overall level of assurance provided (para 5.3-5.5).
- The findings of individual reports. The Audit Committee may wish to focus on those with a higher level of significance and those assigned Nil or Limited assurance. These are clearly set out in Appendix 1.

5.3. The chart ranks the overall adequacy and effectiveness of the controls in place. This assurance rating will feed into Internal Audit's overall assessment of the adequacy of governance arrangements that is required as part of the Accounts and Audit Regulations 2005 and the 2013 Public Sector Internal Audit Standards – Applying the IIA International Standards to the UK Public Sector.

(Please refer to the table on the next page).

Chart 1 Analysis of Assurance Levels

SUMMARY		Assurance				
		Full	Substantial	Limited	Nil	Total
Significance	Extensive	-	7	3	-	10
	Moderate	-	2	6	-	8
	Low	-	-	-	-	-
Total Numbers		-	*9*	*9*	-	*18*
Total %		-	*50%*	*50%*	-	*100%*

5.4. From the table above it can be seen that of the ten finalised audits which focused on high risk or high value areas; seven were assigned Substantial Assurance and three were assigned Limited assurance. A further eight audits were of moderate significance and of these two were assigned Substantial Assurance and six were assigned Limited Assurance. Most of these audits receiving Limited assurance were Schools.

5.5. Overall, 50% of audits resulted in an adequate assurance (substantial or full). The remaining 50% of audits have an inadequate assurance rating (limited or nil).

6. Performance Indicators

6.1. At the start of the year, three performance indicators were formulated to monitor the delivery of the Internal Audit service as part of the Monitoring process. The table below shows the actual and targets for each indicator for the period:-.

Performance measure	Target	Actual
Percentage of Audit Plan completed up to Sept. 2014	50%	48%
Percentage of Priority 1 Audit Recommendations implemented by Auditees at six monthly follow up audit stage	100%	84% 21 out of 25
Percentage of Priority 2 Audit Recommendations implemented by Auditees at six monthly follow up audit stage	95%	83% 15 out of 18

The table above shows that the proportion of internal audit work completed to October 2014 is below target.

6.2. The percentage of priority 1 recommendations implemented at the follow up stage was 84%, whereas the percentage of priority 2 recommendations was 83%. Details of all priority 1 and 2 recommendations not implemented are set out in Appendix 3. Further to the usual actions, meetings are being convened with key officers to seek assurances that agreed recommendations will be implemented promptly.

7. Comments of the Chief Financial Officer

7.1 There are no financial implications arising from the recommendations within this report.

8. Legal Comments

8.1. The Council is required to ensure that it has a sound system of internal control that facilitates effective exercise of the Council's functions and includes arrangements for the management of risk. The Council is also required to maintain an effective system of internal audit of its system of internal control in accordance with proper practices by applying the Public Sector Internal Audit Standard which came into force on 1 April 2013. One of the functions of the Audit Committee under the Council's Constitution is to review internal audit findings. The consideration by the Audit Committee of this report is consistent with the Council's obligations and is within the Committee's functions.

9. One Tower Hamlets

9.1. There are no specific one Tower Hamlets considerations.

9.2. There are no specific Anti-Poverty issues arising from this report.

10 Risk Management Implications

10.1. This report highlights risks arising from weaknesses in controls that may expose the Council to unnecessary risk. The risks highlighted in this report require management responsible for the systems of control to take steps so that effective governance can be put in place to manage the authority's exposure to risk.

11 Sustainable Action for a Greener Environment (SAGE)

11.1. There are no specific SAGE implications.

APPENDIX 1

Assurance level	Significance	Directorate	Audit title
LIMITED	Extensive	Education, Social Care and Wellbeing (ESCW)	St Paul's Way Trust School
	Extensive	Tower Hamlets Homes (THH)	Management of Information Governance
	Extensive	Communities, Locality and Culture and Education, Social Care and Wellbeing and Development and Renewal (CLC, ESCW, D&R)	Monitoring and Control of Mainstream Grants – Youth & Connexions projects Monitoring and Control of Mainstream Grants – Luncheon Clubs Monitoring and Control of Mainstream Grants – D&R projects
	Moderate	Education, Social Care and Wellbeing	Cambridge Heath Sixth Form
	Moderate	Education, Social Care and Wellbeing	Shapla Primary School
	Moderate	Education, Social Care and Wellbeing	St Anne's Catholic Primary School
	Moderate	Education, Social Care and Wellbeing	Management and Control of Telecare Services
	Moderate	Education, Social Care and Wellbeing	Management and Control of Panel Decisions
	Moderate	Resources	Management and Control of Mobile Phones
SUBSTANTIAL	Extensive	Resources	Housing and Council Tax Benefits – Systems Audit
	Extensive	Resources	HR/Payroll
	Extensive	Resources	Future Sourcing – Follow Up audit
	Extensive	Resources	NNDR
	Extensive	Communities, Locality and Culture (CLC)	Control and Monitoring of Penalty Charge Notices (PCNs) Follow Up audit

	Extensive	Communities, Locality and Culture	Management and Control of Anti-social Behaviour – Follow Up audit
	Extensive	Tower Hamlets Homes	Housing Repairs

Assurance level	Significance	Directorate	Audit title
	Moderate	Development and Renewal (D&R)	Management and Control of S 106 Planning Obligations Follow Up audit
	Moderate	Resources	Management and Control of Purchase Cards Follow Up audit

Summary of Audits Undertaken **APPENDIX 2**
Limited Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
St Paul's Way Trust School	Oct 2014	The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. The main weaknesses were as follows:- • Examination of the personnel files for a sample of five new starters identified that for one out of five cases tested, there was no DBS/CRB information retained for the staff member, for one out of five cases tested, there was no evidence of references being obtained, for one out of five cases tested, there was no evidence of the staff member's qualification retained on file, for one out of five cases tested, there was no evidence of a valid medical check retained on file, and for one out of five cases tested, a signed employment contract was not available to view. • The register of business interests had been completed by all staff with financial responsibility. However, declarations of interests were not available for eight governors. • Examination of a sample of 10 general purchases identified that a purchase order had not been raised for four out of nine applicable purchases made, where it would be reasonable to expect this to have occurred. • A review of the school's Computer Asset Register identified that some key information had not been recorded for each asset listed (e.g. source of funding and serial numbers, in all cases and any amount realised for disposal). • Although a sample of Asset Loan Forms had been signed by staff receiving the items, we identified that the loan agreements had not been authorised by a delegated officer in three cases. All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director - Education, Social Care and Wellbeing.	Extensive	Limited

Management Comments

The Education, Social Care & Well-being Finance Directorate have put the following systems and processes in place:-

- Internal audit reports on schools are now a regular item on the DMT agenda for discussion.
- Internal audit reports are used by ESCW schools Finance team to feed into systems to determine schools requiring priority support.
- Internal Audit assurance rating is used to target specific support to schools.

In addition, necessary intervention is put in place by ESCW Finance to assist and support schools in improving governance, financial management and control in specific areas of business activities. .

The schools have acted immediately and agreed to complete all actions with a defined timeframe.
The schools and the governing bodies are fully committed to the recommendations made in the Audit report by:

- by tracking all actions within the timeframe provided in the report, including evidence of actions taken where appropriate
- confirming additional steps that the school are planning to take in light of the audit findings
- to take immediate action in mitigating exposure to risks arising from weaknesses in the control environment

Schools Finance Manager will contact the school and their bursar to review and support the school in its recommendations with additional signposting them to the guidance procedures to follow.
It's proposed a member from schools finance, Audit, HR and learning and achievement will meet with the Head and Chair of Governors to support and ensure the recommendations are completed to a high standard.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Tower Hamlets Homes – Information Governance	Oct 2014	The audit was designed to provide assurance to management that the systems for securing and protecting Tower Hamlets Homes (THH's) data are sound, secure and adequate, and also to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures. The main weaknesses were as follows:- • THH has adopted a range of the Council's Information Governance Policies and Procedures, However it was established that a number of procedures had not been reviewed recently. • THH has a clear desk policy; however, it was observed that this was not always being observed or enforced. • There is no formal programme of training with regards to information governance at THH and information governance is not included in the staff induction training provided to new members of staff at THH. • We were unable to confirm that staff are kept up to date with current legislation with regards to information governance. Although an example of a staff newsletter was provided, it was not clear that this represented regular briefings to staff. • These documents have not been updated to include the localised procedures applicable to THH and the responsible officers. It was also noted that responsibilities for data and security management, as well as information governance had not been formally delegated to THH officers. • Staff are issued with portable storage devices (including encrypted memory sticks); however, there are no records of which staff members have what storage devices. In addition, staff are able to take paper based sensitive information off site which is not recorded or logged. All findings and recommendations were agreed with the Head of Customer Access and Facilities (THH) and reported to the Director of Finance and Customer Services (THH), and the Chief Executive (THH).	Extensive	Limited

Management Comments
THH have been included in the Council-led review of Information Governance Policies. The Records Management Policy will be published on the THH Intranet by end of December 2014 The Data Protection Policy is under review as part of the Council-led review with completion expected in Quarter 4 of 2014-15. The IT Security Policy is under review as part of the Council-led review with completion expected in Quarter 4 of 2014-15. Information Security Incident Management – in progress with LBTH for completion Q4 Localised procedures as well as responsibilities will be prepared once the above review programme is completed. The risk identified in the internal audit review around portable storage devices (including encrypted memory sticks) is under discussion with LBTH ICT to understand how the Council itself manages this risk because any solution found for THH will need to be consistent with approaches taken in the Council. THH use the Council's ICT infrastructure provided by the Council's ICT partner and is bound by the Council's ICT security policies and system configuration. An internal communications campaign is being developed to improve enforcement of clear desk policy and improve management of printed materials that contain personal or sensitive data. Training has been delivered to staff in relation to FOI and DPA with good attendance achieved. Further training on DPA is scheduled in Q4. Service specific training will also be provided by end of Q4 of 2014-15. The finding that staff were not kept up to date with current legislation with regards to information governance will be addressed through further training and awareness once the policy reviews have been completed.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Monitoring and Control of Mainstream Grants CLC ESCW D&R	Aug. 2014	The objective of this audit was to provide assurance that the systems for monitoring of Mainstream Grants delivered by Directorates were sound and secure. Our review showed the following common issues across the three Directorates (viz. CLC , ESCW and D&R) who manage and administer the projects:- 1. There were no documented monitoring procedures currently in place for those organisations receiving MSG funding for the Youth & Connexions projects and Luncheon Clubs. Actual monitoring consisted of a 'desk top' evaluation of the output data submitted by the project organisations. No monitoring visits were carried out to these organisations. There was no verification of actual project expenditure to ensure that the grant was only used for the purpose for which it had been awarded. In addition, claims for expenditure incurred by the organisations in the audit sample were not supported by bona fide evidence. 2. For projects monitored by D&R officers, the procedures for undertaking effective monitoring of MSG have been updated but the draft procedures have yet to be signed-off and formally issued. From interviews with MSG Monitoring Officers and their respective Service Managers, it appears that some Directorates are using the existing MSG procedures, some are using the new draft procedures and some are not aware of the existence of MSG procedures. Therefore, there is the risk that different standards for the management and control of grant are being applied. We found the following specific issues on Youth & Connexions projects:- 1. There were no documented monitoring procedures currently in place for those organisations receiving MSG funding for the Youth & Connexions projects. Actual monitoring consisted of a 'desk top' evaluation of the output data submitted by the project organisations. No monitoring visits were carried out to these organisations. There was no verification of actual project expenditure to ensure that the grant was only used for the purpose for which it had been awarded. In addition, claims for expenditure incurred by the organisations in	Extensive	Limited

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the audit sample were not supported by bona fide evidence.

2. The collection of output information did not include equal opportunities monitoring data which is a requirement for grant funded Third Sector Organisations. This represents non-compliance with Grant conditions.

3. Officers did not have full contract documentation which included the formal offer letter setting out terms and conditions of the grant and agreed outputs and outcomes. In absence of these documents, we were not clear how an effective monitoring of output data submitted by each organisation would be undertaken. This severely limited the extent of audit testing which could be undertaken by us.

4. There was no evidence to show that Value for Money issues were taken into consideration during the lifetime of the project. There was a risk that projects which failed to deliver the specified outputs would not be identified and action planned for corrective action, resulting in grant money not being used for the intended purposes.

We found the following specific issues on Luncheon Club projects:-

1. An examination of the quarterly monitoring information for the sample showed that some service providers were not achieving the targeted outputs for which the grant was awarded. We have recommended that a value for money review should be undertaken where there is significant under-achievement of agreed outputs and or outcomes, to determine reduction or withdrawal of grants.

2. We found that two organisations in the sample of five, had reported that they had not been registered as food premises with the Council's Environmental Health Team. Such registration was a prerequisite of the grant award, and hence we were not clear as to how these organisations continued to receive grants.

3. It was noted that only one of the five organisations in our sample had recorded receipt of LBTH MSG in their statement of financial activities.

We found the following specific issues on grant projects overseen by D&R:-

1. Monitoring needed to include the verification of outputs and outcomes, review and probity of the organisations' financial policies, key organisational changes, governance information and verification of expenditure to ensure that the grant is being used only for the purpose for which it had been agreed and that any expenditure is fully supported by bona fide evidence as these checks are not required under existing MSG guidance. This is at variance with the Council's Financial Regulations for organisations in receipt of grant aid. Therefore, there is a risk that Council grant may be used to cover expenditure that does not relate to the grant agreement.

2. In respect of the Social Welfare Advice Service Programme, a risk assessment was undertaken in order to prioritise organisations for a monitoring visit. However, the risk assessment was not formally documented.

3. There was no evidence of management review and monitoring of the quality of monitoring visits by officers to ensure that the required standards were being met and procedures complied with. In addition, the reports of the monitoring visits produced by the monitoring officer were not signed and dated.

For Youth & Connexions, all findings and recommendations were agreed with the Service Head, Safer Communities and final report was issued to Corporate Director, CLC and Head of Paid Services. Progress meetings to monitor implementation of recommendations were being held periodically.

For Luncheon Club, all findings and recommendations were agreed with the Service Head, Commissioning and final report was issued to the Corporate Director, Education, Social Care and Wellbeing.

For Social Welfare Advice Service Programme overseen by D&R, all findings and recommendations were agreed with the Acting Service head, Resources and final report was issued to the Corporate Director, Development and Renewal.

Management Comments

Luncheon Club – Education Social Care and Wellbeing

In response to the Audit findings the Quarterly Monitoring Review and monitoring visit report templates have been amended to reflect the requirements identified in the Audit recommendation, and are now in use. The annual self-assessment template has been similarly amended for ongoing use.

More broadly a comprehensive review of contract management and monitoring procedures within the ESCW Directorate is underway. This covers all contract management activity, including that related to services funded via the MSG programmes. The project brief including terms of reference for this review are attached. The review will have completed its work, and new arrangements, procedures and monitoring tools will be in place by the end of January 2015.

Work undertaken by the Directorate subsequent to the Internal Audit has identified weaknesses in the way in which monitoring requirements have been communicated to MSG funded lunch clubs more broadly. We have run a session for all lunch clubs on the monitoring requirements to ensure consistency, are planning further engagement with the lunch clubs as a group, and are following this up with individual support, particularly for organisations with limited access to / ability with ICT. This reinforcing of monitoring requirements has been combined with much clearer messaging about the importance of fully complying with monitoring requirements, and that future quarterly payments will be withheld if compliance is not achieved. A process for dealing with poorly performing lunch clubs is also under development in order to address value for money concerns as and where appropriate.

Previously, responsibility for monitoring all lunch clubs sat with an individual Monitoring Officer. This has now been changed so that monitoring responsibility for lunch clubs is spread across a number of Monitoring Officers. This reduces the 'single point of failure' risk that existed previously, and has already resulted in a number of new concerns being identified relating to the operation of individual lunch clubs which are being dealt with as they arise. Any formal action arising from these interventions will be reported via the Corporate grants monitoring process.

Work has been undertaken with the Council's Environmental Health service to ensure that all premises from which lunch clubs are run are properly registered as food premises, and as a result all are now properly registered or in the process of being registered.

Social Welfare Advice Service Programme - Development and Renewal

There are 5 key issues identified from the Audit of the management and monitoring processes and procedures of D&R's Main Stream Grant programme comprising of projects from Social Welfare Advice, Community Economic Engagement and Third Sector Infrastructure. From these issues there are 6 recommendations setting out various concerns. Appropriate and timely action has been taken and a clear set of plans have now been developed identifying the appropriate steps necessary to rectify all of the issues and concerns that have been identified. These are outlined below.

- An updated comprehensive Grant Officers Manual - covering grant management requirements - has been developed, with input from Internal Audit, for issue to all relevant officers including service managers. An initial induction/training session has been organised and all relevant officers and service managers have been invited. A follow-up session will be organised to ensure that all required staff are fully aware of the manual and the associated requirements. The Manual will be issued with version control and updated versions and/or associated templates reissued as appropriate. In any event the manual will be reviewed on an annual cycle.
- Procedures and arrangements for the prioritisation of monitoring visits based on 'risk assessment' have been developed and included within the updated Grants Officers Manual – this will ensure that within each monitoring period, those projects deemed to be the highest risk will be identified and prioritised for monitoring purposes.
- Processes and procedures for the verification of spend have been significantly strengthened and these are clearly set out in the updated Grant Officers Manual, to ensure that grant funding is being used solely for the purpose for which it was agreed.
- Procedures have been strengthened, again clearly set out in the updated Grant Officers Manual, which enable the consideration of the extent to which funded organisations have appropriate 'organisational governance processes and procedures' in place, to ensure the overall effective management of grant funded projects.
- The GIFTS system has always been available for directorate grants officers use, however this has not been mandated. The use of the GIFTS database is now being 'rolled out' as the primary tool in the management, monitoring and recording of information related to grant funded projects. Directorate based officer will now be required to use this system. Improvements and developments have been made to ensure that GIFTS is able to capture an increasing range of information through the population of appropriate templates within the system or by attaching external documents to project files. Further improvement and developments are planned to come on stream in due course.

Youth & Connexions – Communities, Localities and Culture
Management Comments

Procedures have been developed to cover the various manager's roles and responsibilities in respect of monitoring mainstream grants, and they will be supported by a documented risk assessment, process maps and standard templates. Internal Audit to review procedures prior to sign-off by the Safer Communities Service Head.

A folder for each contract is maintained by the service. The Head of YCS ensures that all contract documents relating to mainstream grants are held by the service and that the process of monitoring is applied to each contract.

A risk assessment template has been developed to cover the process. Each monitoring meeting is logged in a centralised spread sheet, which specifies visit's date, officer, project, venue, organisation, contact, and further actions. Assessment document will be kept on project folder,

along with comments made by Head of Service on direction. A list of staff and what training they require will be produced, which will then be actioned through the PDRs. Spreadsheet already in place and is RAG rated highlighting risk. A standard checklist identifying the type and levels of monitoring checks to be undertaken would be drawn up. Payments monitoring and review are now documented and kept in the project folder. CIPFA training is organised on 19th February 2015. Assessment template has been developed for officers and Head of YCS to undertake reviews on value for money. Each assessment will be kept in the project folder.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Cambridge Heath Sixth Form	Oct 2014	The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. The main weaknesses were as follows:- • It was identified that the 2014/15 Budget Plan was currently in its draft stage at the time of audit (July 2014). Discussion with the Bursar established that due to resourcing issues, the RM Cash Accounts system is only updated on a monthly basis by their Tower Hamlets Financial Advisor. • Testing of five new starters identified that qualification certificates were not on file for two of the starters tested. • Audit testing of free school meals identified nine out of 20 students on the School's free school meals list for which there was no confirmation from the Local Authority that the students were eligible. • At the time of the audit, there was no evidence that a formal stock check and certification of the inventory records had been completed during the last 12 months. The Scheme of Delegation requires an annual independent stock check and certification of stock and inventory records. • Testing of ten items at the School found no evidence that the assets were permanently marked with the School's details. • It was confirmed that Cambridge Heath leases three photocopiers. Review identified that the lease for one of these had expired in August 2013. Furthermore, the leases for the remaining two photocopiers were due to expire in June and August 2014. At the time of the audit, there had been no decision regarding the title transfer of the leases, and whether they should continue after Cambridge Heath is disaggregated. All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director - Education, Social Care and Wellbeing.	Moderate	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Shapla Primary School	Sept 2014	The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. Our review confirmed that the school has an adequate governance structure in place. The main weaknesses were as follows:- • The Resources Committee does not have a terms of reference. • Examination of a sample of five starters' personnel files identified that there was no evidence of appropriate right to work documents maintained on file. • Our sample of five starters identified three did not have any references on file. The other two had only one reference on file. • For three payments in excess of £5,000 tested, evidence of the appropriate Governing Body or Resources Committee approval could not be identified. For a further two applicable payments tested, we were unable to obtain evidence that three quotes had been obtained. It was noted that the payments were for emergency works and therefore alternative quotes had not been sought. Examination of Governing Body and Resources Committee minutes could not identify if these exceptions had been highlighted to Governors. • Whilst the School's Strategic Development Plan 2011-2014 was available to view, there was no evidence of full Governing Body's periodic review and updates being provided to the Governing Body. • We were unable to confirm that a register of business interests had been completed for one governor. It was also noted that although Governing Body meetings have an agenda item for declarations of interests, the Resources Committee meetings did not. All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director - Education, Social Care and Wellbeing.	Moderate	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
St Anne's Catholic Primary School	Oct 2014	The audit was designed to ensure that there were adequate and effective controls over the administration and financial management of the school. Our review confirmed that the school has an adequate governance structure in place. The main weaknesses were as follows:- • There was one contract over £15,000 at the School, for which there was no evidence that quotes had been sought or approval from the Governing Body obtained as required by the Code of Practice for Financial Management. Furthermore, the copy of the contract between the supplier and the School was unsigned. • Through review of the meeting minutes of the Full Governing Body since March 2013 it was observed that while the March 2013 minutes had a declaration of interest as an agenda item, subsequent minutes did not record an opportunity to declare pecuniary interests. • Through review of the School Improvement Plan (SIP) it was established that where there are financial resource requirements these had not been identified in the SIP. • Through review of the income records which also show the date of banking, it was noted that there were three separate bankings totalling £2,118. This amount exceeds the insurance limit of £500. • The Code of Practice for Financial Management states that for all transactions between £50 and £250 the School should note on the order form that prices of other products were checked, while for all transactions between £250 and £5,000 three verbal quotations should be taken and a written record of these be attached to the official order form. From a sample of 10 procurements, there were nine instances (ranging in value from £55.00 to £2,362.80) where it was established that this guidance was not being followed. All findings and recommendations were agreed with the Head Teacher and reported to the Chair of Governors and the Corporate Director - Education, Social Care and Wellbeing.	Moderate	Limited

Management Comments

The Education, Social Care & Well-being Finance Directorate have put the following systems and processes in place:-

- Internal audit reports on schools are now a regular item on the DMT agenda for discussion.
- Internal audit reports are used by ESCW schools Finance team to feed into systems to determine schools requiring priority support.
- Internal Audit assurance rating is used to target specific support to schools.

In addition, necessary intervention is put in place by ESCW Finance to assist and support schools in improving governance, financial management and control in specific areas of business activities.

The schools have acted immediately and agreed to complete all actions with a defined timeframe.
The schools and the governing bodies are fully committed to the recommendations made in the Audit report by:

- by tracking all actions within the timeframe provided in the report, including evidence of actions taken where appropriate
- confirming additional steps that the school are planning to take in light of the audit findings
- to take immediate action in mitigating exposure to risks arising from weaknesses in the control environment

Schools Finance Manager will contact the school and their bursar to review and support the school in its recommendations with additional signposting them to the guidance procedures to follow.
It's proposed a member from schools finance, Audit, HR and learning and achievement will meet with the Head and Chair of Governors to support and ensure the recommendations are completed to a high standard.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management and Control of Telecare Services	Sept 2014	The audit was designed to provide assurance to management as to whether the systems of control around Telecare Services are sound, secure and adequate. In addition, the audit sought to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures. The main weaknesses were as follows:- • Regular stocktakes are undertaken, but these are not formally documented and recorded. • Inefficient working practices are in place in respect of the staff shift rotas used, as well as insufficient funding having been budgeted for full-time service provision, resulting in use of overtime to cover staff leave and other absences, leading to an overspend as at the end of year 2013-14 budget report of £65,000. • We identified that an asset benefit analysis had not been undertaken by the Telecare Services Team and therefore we were unable to confirm that the Council was receiving value for money from the assets being utilised. • From a sample of 20 Telecare installation assessments tested, in seven instances we noted that an assessment had not been recorded appropriately and in a timely manner. Of these, in five cases information had not been documented or retained. • We identified that service outcomes are not being formally monitored and performance is not reported to senior management. • Although policies and procedure notes were in place and available to view, we identified that some had not been evidenced as reviewed within the last 12 months, and no reference to data protection requirements was made. All findings and recommendations were agreed with the Interim Head of Adult Social Care and reported to the Service Head for Learning and Achievement, and the Corporate Director - Children, Schools and Families.	Moderate	Limited

Management Comments

- An Equipment Stock Take spreadsheet has been created where stock is formally documented and recorded.
- Telecare is a 24 hours service which has to be sufficiently manned at all times regardless of staff leave, sickness etc. This increases the risk of overspend.
- An asset benefit analysis is being looked into.
- Vigorous processes in working methods have been implemented to ensure that all Telecare assessments and installations are recorded appropriately and in a timely manner. Information is scanned and securely retained in appropriate folders. These processes have increased staff accountability for the documentation of their work and also include checks and trails as a means of monitoring.
- Working methods and processes have been strengthened within the team that formally monitor service outcomes e.g. after a telecare installation. Checks and trails are firmly in place. Telecare service aims and objectives are clear, and upon which outcomes are monitored and performance is reported to senior management through board meetings for example.
- Policies and procedure notes have been reviewed and recently updated. This will continually be carried out in a periodical manner which ensures that notes are reviewed and are up to date. Data Protection is now referenced and incorporated in policies and procedures.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management and Control of Panel Decisions	Sept 2014	The audit was designed to provide assurance to management as to whether the systems of control around the Management of Panel Decisions are sound, secure and adequate. In addition, the audit sought to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures. The main weaknesses were as follows:- • Testing found that guidelines and terms of reference for the panels were out of date and had yet to be reviewed. • Incomplete documentation was found to be retained in one of five cases reviewed for the Mental Health Panel and for all five cases reviewed for the Joint Commissioning Panel, and it was not possible to confirm that the required documentation had been provided to the panel as part of the decision making process. • Discussions and review of e-mails between the Service Manager, Social Care ICT and social care teams showed that there are on-going issues in relation to budgetary reporting, and the records maintained by the social care teams and information on the Framework-i system have been found to be at variance. • Examination of panel case approval documentation showed that the options considered by social workers in reaching decisions to recommend a particular support plan to panels are not documented in the information presented to panels. • Three of the five panel case approval meetings sampled of the Mental Health Panel held were found to have not met the quorum requirements in place. • No information governance arrangement is currently in place with the East London NHS Foundation Trust over how client records managed by the Mental Health panel are controlled. All findings and recommendations were agreed with the Interim Head of Adult Social Care and reported to the Service Head for Learning and Achievement, and the Corporate Director - Children, Schools and Families.	Moderate	Limited

Management Comments

The Panel is now operating twice weekly with new Terms of Reference being agreed. The papers are circulated in advance so all participants have the opportunity to read them before the actual Panel meeting. As agreed team managers/ senior practioners present the case with the relevant evidence before any care package is approved where the funding is over £300 per week. Decisions from the Panel are recorded on specially devised forms and signed by the Chair of the Panel and then transferred into Framework-i. Membership is well established with the relevant partners attending and a strong management grip is now evident on the cases presented to the Panel. The financial recovery group meets twice monthly where the savings/ expenditure and cost avoidance is reported. This effectiveness of the Panel can be seen by the financial information presented and there is close working relationship with finance staff.

There is evidence of a positive shift in the way staff approach the delivery of the care packages, more innovating packages are seen .The quality of the presentations, the analysis and challenge is evident . A review has been held after 6 months of operating within this revised model and improvements are on-going. The IT is being revised in line with the overall changes from Framework-i to Mosaic and this work is in progress. The implementation of the Care Act is also interwoven into the development of the Panel and social work practice.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management and Control of Mobile Phones	Sept 2014	The audit was designed to provide assurance to management as to whether the systems of control exercised by the Council to meet its agreed objectives with regards to management of mobile phones and Blackberry devices are adequate and effective. In addition, the audit sought to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures. The main weaknesses were as follows:- • Since June 2013 administrative staff have not been able to review mobile phone usage effectively. • There is inadequate segregation of duties between officers checking mobile phone accounts and the phone users in a number of cases. • We obtained the April 2014 detailed usage report from Agilysis and identified that there were 1,565 accounts where 'usage' charges were zero for the month. Directorates and departments are responsible for administering pool phones, standby phones and returned phones. • Policies and procedures held on the intranet are not version controlled. • There was no evidence to confirm that officers set up as approvers of mobile phones requests are checked on a regular basis to verify that they are still appropriate to approve the requests. All findings and recommendations were agreed with the Contracts and Performance Manager Client Unit ICT and reported to the Head of IT, and the Interim Corporate Director of Resources.	Moderate	Limited

Management Comments

The portal has been implemented for a pilot group of 30 administrative staff (known as Invoice Managers. Mobile phone usage is being monitored by these Invoice Managers. Agilisys are rolling out the self-service portal for the remainder of administrators/Invoice Managers.

A full review of Invoice Managers and users was recently undertaken by Directorate representatives to ensure separation of duties and that no one has blackberry or a phone that does not need one. Some of the zero usage users are those that do not make calls from council phones or BlackBerrys, but use these devices for receiving calls or for making emergency calls (i.e. lone workers) and/or use emails and calendars. Also staff on maternity and long term sickness was shown as zero usage users. A list of users who no longer need their phones is being progressed by Agilisys. The devices and SIMs no longer used are now being recycled by Agilisys.

The three key policy documents have been reviewed and version controlled and updated versions will be loaded on the intranet by the end of January 2015.

Substantial Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Housing Benefits and Council Tax Support	Nov 2014	The audit was designed to provide assurance to management, as to whether the systems of control around the Housing Benefits and Council Tax Support system are sound, secure and adequate and also to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures. The main weaknesses were as follows:- • At the time of the audit, reconciliations of the Northgate system with Agresso had not been performed for over a month and there is no evidence of segregation of duties within the process, or the investigation of variances. It was noted that all reconciliations for the year were completed at the end of May. • From our testing of 20 cases where housing benefits were no longer being paid, that in 15 cases where overpayments were outstanding, recovery actions have been taken and repayment arrangements are in place. In the remaining five cases, no money has been recovered, and following the reminder letters being sent, the cases have not been progressed to legal or collection agency actions. All findings and recommendations were agreed with the Head of Benefits Services and reported to the Interim Corporate Director of Resources.	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
HR/Payroll	Oct 2014	The audit was designed to provide assurance to management, as to whether the systems of control around the HR & Payroll system are sound, secure and adequate and also to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures. The main weaknesses were as follows:- • Reconciliation of the general ledger to payroll has not been undertaken since September 2013, and has not been undertaken on a timely basis throughout the financial year. This issue is covered in the audit report on General Ledger and therefore a recommendation was not made in this report to avoid duplication. • The payroll policies and procedures in place have not been updated since April 2012. • Overpayments have arisen due to delays in HR notifying the Payroll team of staff leaving LBTH. • We found a number of instances where starter and leaver forms had not been date stamped. • We determined that starter forms were not always scanned on the system to be retained electronically once they were processed. • A different form is used in respect of electoral canvassers to the rest of the Council starters that were sampled. The electoral canvassers form lacks the strength of data capture controls that the Council's standard form uses, as no dual signatures are required and there is no starter checklist. • A spot checking regime is in place, but there is no established guidance or records in place on the size of the samples taken or the frequency of the checking undertaken. • Additionally, two of the recommendations raised in the 2012/13 internal audit had not been fully implemented at the time of the 2013/14 audit. All findings and recommendations were agreed with the Service Head, Human Resources and Workforce Development and reported to the Interim Corporate Director of Resources.	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Future Sourcing Contract Monitoring Follow Up Audit	Nov. 2014	This audit assessed the progress made in implementing audit recommendations agreed at the conclusion of the original audit in May 2013. Our testing showed that of the five high priority recommendations made, two had been implemented, two were partly implemented and one was not implemented. Of the seven medium priority recommendations, three had been implemented, three were partly implemented and one not implemented. The previous recommendation that current systems and procedures underpinning the contract monitoring processes should be documented and should also include the standards to which the contract is to be monitored needed to be progressed. Although all reported P1 and P2 call alerts were quality checked, for P3 – P5 calls received, there was no monitoring undertaken by the Client Team as the access required to SupportWorks has yet to be provided by Agilisys. The calculation of performance deductions credit was defined in the Agreement. This requires a written report to Strategic Partnership Board (SPB) in each instance and SPB agreement to waive or not to waive such deductions. Although, decisions taken by SPB were documented the waiving of service credits was not included within the Board's Terms of Reference. In addition, the decision to waive service credits needed to be formally delegated under the Council's Scheme of Delegation. Agilisys provided monthly payroll lists and supporting documents to undertake a full reconciliation of apprentice costs prior to approval of invoice. However, we understand that no mini payroll audits had been undertaken by the Client Team to validate that apprentices charged to the contract, were resident within LBTH. The requirement for a central database to hold key contract information such as insurance renewals, software licence renewal, and variation and change control etc. has not been fully resolved. All findings and recommendations were agreed with the Interim Heat of ICT and final report was issued to the Acting Corporate Director, Resources.	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
NNDR	Nov 2014	The audit was designed to provide assurance to management, as to whether the systems of control around the NNDR system are sound, secure and adequate and also to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures. The main weaknesses were as follows:- • Management has insufficient assurance that effective controls are in place to prevent fraud occurring as a result of retrospective void statuses being applied to properties. • From a sample of 20 void, charitable and part-occupied reliefs awarded, in three cases it was found that there were no records of inspections of properties granted void and charitable relief having been conducted. In two cases, no record of the notification or application for relief received was retained, and so it was not possible to confirm on what basis the relief was originally applied. • From a sample of 11 inhibited accounts, in all cases it was found that inhibits had been applied appropriately, but in three cases it was noted that the necessary tracing actions had not been taken, as the correct markers had not been applied by the NNDR team to the cases in order to highlight them as needing to be processed by the Debt Recovery team. Of a sample of 25 accounts with outstanding balances, it was found that recovery actions had not been taken in a timely manner in four cases. • Review of the monthly reconciliations between the Civica and Agresso systems which are undertaken by the Revenue Services team identified that as at the end of the financial year 2013/14, the reconciliations for the month of March 2014 had not been completed and reviewed by the end of June 2014. The reconciliations were not dated as to when they were prepared and reviewed. All findings and recommendations were agreed with the Service Head - Revenue Services and reported to the Interim Corporate Director of Resources.	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Control and Monitoring of Penalty Charge Notices (PCNs) Follow Up audit	Sept. 2014	This follow up audit assessed the progress made in implementing the agreed recommendations at the conclusion of the original audit on this subject. Our testing showed that out of the six high priority recommendations made at the conclusion of the original audit, five recommendations had been progressed during the follow up audit and one was still outstanding. In line with the original recommendations, procedures had been documented and process maps had been developed. These, however, needed to be included within the new Procedures Manual, so that all related procedures are captured in one single document which is version controlled. We noted that procedures in place for stage queue reviews together with any proposed action to move cases further up the recovery chain had been charted but still needed to be clearly documented within the Procedures Manual. The Bailiff contract which expired in August 2013 was extended for a further year. Although no specific KPIs were added to the extended contract, an SLA was formulated. From our analysis, it would appear that Bailiff performance in collecting PCN's referred to them needed to be improved further. Finally, we noted that debtors and bad debt provisions were still not being reviewed and updated on GL system on a quarterly basis. In addition, the basis on which bad debt provisions were calculated was not reviewed to ensure that assumptions made are realistic and consistent with current recovery rates. All findings and recommendations were agreed with the Service Head, Public Realm and final report was issued to the Head of Paid Service and Corporate Director, Communities, Localities and Culture and .	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management and Control of Anti-Social Behaviour Follow Up	Oct. 2014	This follow up audit assessed the progress made in implementing the agreed recommendations at the conclusion of the original audit in January 2014. Our testing found that of the seven high priority recommendations, two remained outstanding and of the two medium priority recommendations, one remained outstanding. We found that procedures were still at draft stage and needed to be finalised and issued to all relevant staff. The team leader needed to ensure that all case reviews were carried out according to the scheduled dates for effective case management so that unnecessary delays are avoided in processing the cases and achieving desired outcomes. We also recommended that sample checks should also be carried out by the Head of Enforcement and Support Intervention to ensure that case management is effectively reviewed and monitored. All findings and recommendations were agreed with the Service Head, Community Safety and final report was issued to the Head of Paid Service and Corporate Director of Communities, Localities and Culture.	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Tower Hamlets Homes - Housing Repairs	Nov 2014	The audit was designed to provide assurance to management, as to whether the systems of control around Housing Repairs are sound, secure and adequate and also to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures. The main weaknesses were as follows:- • The Repairs Policy has not been updated since 2008, and was not available to staff at the time of the audit. The Complaints Policy was most recently reviewed in 2010. The documents did not include version histories. • In some cases where work orders were raised, an appointment for the repair work was not made with Mears and the tenant by the Council, and additional work requests (pre-inspections, work orders and contractor recalls) were not raised as part of the initial order. In one case, a variation to a work order was submitted and approved after the work was recorded as completed on the Northgate system. • The process for raising invoices to recharge the tenant could not be established, as there was no policy or process documentation in place, responsible officers had not been established, and it was not possible to obtain a report of all costs marked for recharge for testing. • Post-inspections were conducted in 6.7% of cases from April 2013 to July 2014, against a target in place of 10%. In two cases from a sample of 25 work orders tested, a post-inspection was not conducted on a work order type for which a post-inspection is required in 100% of cases (condensation reported in the property). • The invoice approvals for October 2013 were not signed off as having been reviewed and approved for payment, and the reconciliation between the costs invoiced by Mears and the records as per the SX3 system had not been completed for 2014/15 to date. All findings and recommendations were agreed with the Head of Repairs and reported to the Interim Director of Neighbourhood Services, the Director of Finance and Customer Services, and the Chief Executive.	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management and Control of S 106 Planning Obligations Follow Up audit	Oct. 2014	This follow up audit assessed the progress made in implementing the agreed recommendations at the conclusion of the original audit finalised in August 2013. Our testing showed that out of the three high priority recommendations made in the original report, all had been progressed. The PCOP Terms of Reference had been updated to include the quorum requirements and also the declaration of interests requirement. The Chair of PCOP and his staff provided strong governance to the planning, programming and application of s.106 Planning Obligations and in identifying key risks to the plan and programme. From our review, we have reported that the control over monthly income reconciliation between the s106 officer and D&R Finance Officer needed to be improved to ensure Finance data matches the s106 dataset, so that quality assurance can then be reported at PCOP as part of the monitoring process. All findings and recommendations were agreed with the Service Head , Planning and Building Control and final report was issued to the Corporate Director, Development and Renewal.	Extensive	Substantial

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management and Control of Purchase Cards Follow Up audit	Oct. 2014	This follow up audit assessed the progress made in implementing the recommendations agreed at the conclusion of the original audit finalised in March 2014. Our testing showed that of the three high priority recommendations made, one was outstanding, but we are satisfied that since reporting this matter to Management, a control has been put in place and we were shown evidence of this. We note that compliance monitoring will commence from October 2014. Of the six medium priority recommendations made, progress was noted in implementing these since the issue of the draft report and we were shown evidence to support this progress. However, management must ensure that the overall control environment is sound and secure going forward. The follow up review found that budget holder forms have been modified to include Finance Officer name and signature. The purchase card expenditure for 2013/14 was analysed and reported to the Resources DMT. The purchase card user guide and procurement procedures manual have been updated. Quarterly reports from HR/Payroll listing leavers and staff on maternity leave are used to identify purchase card holders for cancellation of cards. We have reported that improvement is required in compliance monitoring both at the Centre and at Directorate level to ensure that purchase card transactions are properly reviewed and approved by budget holders to manage the risk of error, omission, bad value for money, irregularity, fraud and waste. We are now satisfied that the Compliance Manager has developed a system of monitoring compliance with the requirements and that visits will be conducted to review transactions and VAT accounting will be improved to ensure that the risk of loss of VAT is managed. We have also recommended that all current purchase card holders should have signed purchase card agreements in place. All findings and recommendations were agreed with the Service Head and final report was issued to the Acting Corporate Director of Resources.	Moderate	Substantial

Follow Up Audits – List of Priority 1 Recommendations still to be implemented

Audit Subject	Recommendation	Service Head	Officer Name
Control and Monitoring of Penalty Charge Notices (PCNs)	Debtors and provisions should be reviewed and updated on the general ledger on a quarterly basis. The basis on which bad debt provision is calculated should be reviewed quarterly to ensure assumptions made are realistic and consistent with current recovery rates.	Jamie Blake	Michael Henegan/ Stephen Willie
Management and Control of ASB	Periodic spot checks should be undertaken to confirm that all reports are being recorded in a timely manner.	Andy Bamber	Kridos Pavlou & Trevor Kennett
Management and Control of ASB	Evidence of weekly reviews of progress against action plans for active cases by the Enforcement Team Leader as part of staff supervision should be documented within the Flare system	Andy Bamber	Kridos Pavlou & Trevor Kennett
Future Sourcing	The current systems and procedures which underpin the contract monitoring processes should be documented. This should include the standards to which the contract is to be monitored.	Shirley Hamilton	Ikbal Hussain

Follow Up Audits – List of Priority 1 Recommendations still to be Implemented

Audit Subject	Recommendation	Service Head	Officer Name
Management and Control of ASB	A sample of closed cases should be reviewed by the Head of Enforcement and Support Intervention as part of supervision.	Andy Bamber	Kridos Pavlou
Future Sourcing	A database should be maintained to record all key contract information and contract documentation, which should be retained and managed by the Contracts and Performance Coordinator. As a minimum the following contract information should be maintained: • Security certificates, • Insurance renewals and indemnities, • Licence renewals of key software systems and certificates • Data Protection Register details, • ISO registration (Certification expires on 9th April 2015), • Variations and change control and Issues Log.	Shirley Hamilton	Ikbal Hussain and Shirley Hamilton

Agenda Item 3.2

REPORT TO:	DATE	CLASSIFICATION	REPORT NO.	AGENDA NO.
Audit Committee	**4th February 2015**	**Unrestricted**		
REPORT OF: **Corporate Director, Resources** ORIGINATING OFFICER(S): **Head of Risk Management and Audit**		**Updated Internal Audit Plan 2014-15** Ward(s) Affected: **N/A**		

1. SUMMARY

1.1. This report provides an update of audit activity planned for this financial year and reflects changes made to the original internal audit plan as a result of changing priorities of the authority within the resources available to perform audit work.

2. RECOMMENDATIONS

2.1 The Audit Committee is asked to note the changes proposed and to endorse the revised 2014/15 internal audit plan attached at Appendix 2.

2.2 The Audit Committee is asked to note the resourcing of the audit plan, as detailed at para. 4.1 of this report.

3. Background

3.1 The original internal audit plan was prepared at the start of the current financial year and was presented to the Audit Committee for endorsement in March 2014. The internal audit plan was formulated using the governance model whereby four key areas were assessed for all operations of the Council and prioritised.

3.2 In line with the internal audit strategy, the plan has been refreshed and some changes made to the original annual audit plan. The reasons for this are as follows:

- Requests from officers to perform audits that were not originally planned;
- Requests from officers to increase the scope of audits which has resulted in higher allocation of audit days;
- Requests from Chief Officers to defer audits due to service restructuring, other external inspections and changes made to existing systems and the need to allow a period of bedding in;
- Make use of days provided in the original plan that had not been allocated to specific audits;
- To avoid duplication of work with either the external auditor or other assurance provider; and
- Additional commitment to unplanned work.

4. Updated Internal Audit Plan for 2014/15

4.1 Appendix 1 summarises audits that have been added to or deferred from the original internal audit plan. As with previous years, any audits deferred from the current year's audit plan will be considered as part of the audit planning process for the 2015/16.

4.2 Appendix 2, in line with internal audit best practice, provides details of additional audits that have been identified from a review of the recent organisational changes and developments, our own risk assessment of audit needs for the Council and the Council's strategic risks. The majority of the audits are essentially compliance based audit work that would provide assurance to those charged with governance around compliance with key policies, procedures and regulations and the assurance over the management of strategic risks. As the revised audit plan at Appendix 1 is already fully resourced, carrying out any of the audits listed at Appendix 2 will require planned audits listed in Appendix 1 to be deferred and/or provision made for additional audit resource. In any case, as part of the audit planning process, audits listed on Appendix 2 will be assessed for inclusion in the 2015/16 Audit Plan.

4.3 Appendix 3 shows the updated internal audit plan for 2014/15, which can be resourced from the existing Internal Audit structure. The summary below shows how the plan has changed from that approved in March 2014.

Number of days originally planned	1,441
Add: Additional audits added to the plan (Please refer to Appendix 1)	130
Less: Audits to be considered as part of 2015/16 Audit Plan (Please refer to Appendix 1)	60
Less: Use of previously unallocated days to specific audits	40
Less: Use of reactive fraud allocation	30
Number of days per the Revised plan	1,441

5. Comments of the Chief Financial Officer

5.1 The audit plan is expected to be delivered within existing budgets. There are no financial implications arising from the recommendations within this report.

6. Legal Comments

6.1. The Council is required to ensure that it has a sound system of internal control that facilitates effective exercise of the Council's functions and includes arrangements for the management of risk. The Council is also required to maintain an effective system of internal audit of its system of internal control in accordance with proper practices. One of the functions of the Audit Committee under the Council's Constitution is to review internal audit findings. The consideration by the Audit Committee of this report is consistent with the Council's obligations and is within the Committee's functions.

7. One Tower Hamlets

7.1. There are no specific one Tower Hamlets considerations.

7.2. There are no specific Anti-Poverty issues arising from this report.

10 Risk Management Implications

10.1. These are contained within the body of the report.

11. Sustainable Action for a Greener Environment (SAGE)

11.1. There are no specific SAGE implications.

Appendix 1

A Summary of Changes to the Internal Audit Plan – 2014/15

	Directorate	No. of days	No. of days
Original 2014/15 Audit Plan			**1,441**
Audits Added to the Original Plan			
Best Value Review –Policing ASB	CLC	15	
Troubled Families Grant Verification	ESCW	15	
Failed Visits Procedures	ESCW	15	
Ben Jonson School - Investigation	ESCW	20	
Employment Options	Corp	15	
Mulberry School – Procurement	ESCW	10	
CIS Compliance Testing	RES	10	
Reactive work	RES	15	
Parking Permits	CLC	15	
Sub Total			***130***
			1,571
Less **Audits amended and carried forward to 2015/16 due to additional requests above**			
Management and Control of Sickness	Corp	-15	
Service Planning	Corp	-15	
Management of VAT	RES	-15	
Management of Licence Revocation	CLC	-15	
Use of Management Request contingency		-40	
Use of Reactive Fraud provision		-30	
Sub Total			***-130***
Total Revised Plan			**1,441**

Appendix 2

List of Additional Audits for Consideration

(Note – these audits can be considered if additional resource is made available or audits in revised Audit Plan at Appendix 1 are deferred)

Auditable System	Broad Scope of Audit	Days
Corporate Reviews		
Compliance Testing - use of Purchase Cards across the Council's services.	This audit will carry out compliance testing on the use of Purchase Cards by services across the Council to provide assurance that the cards are appropriately used for purchasing supplies and services in accordance with Council's procedures.	30
Management and Control of use of Taxis/Cabs	Following the procurement of a framework contract for taxis, this audit will examine the soundness of controls in place for managing and approving the use of taxis/cabs by officers across the Council and compliance with Council policies and procedures.	10
Establishment Control	The objective is to review the systems for effective management and monitoring of Establishments levels to ensure that sound establishment control is exercised throughout the organisation.	15

Value for Money Arrangements	This audit will review the Council's arrangements for providing value for money in resources used.	30
Procurement Compliance	This audit will undertake compliance testing to provide assurance that the key requirements of the Council's Procurement policies, procedures and government regulations are being complied with by officers across all the Council's services.	30
Regularity audit of third sector organisations	We will undertake regularity audits of a sample of third sector organisations to ensure compliance with Council procedures.	100
Law, Probity and Governance		
Procurement and Payment for Legal Advice	This audit will review the arrangements for procuring, managing, controlling and paying for external legal advice.	15
Executive Decisions Making Process	This audit will examine systems and controls over the management of Executive Decision making arrangements.	10
Education, Social Care and Wellbeing		
Management of the Action Plan for Serious Review Cases	We will examine the soundness of arrangements for implementing the action plan for serious review cases.	15

Management of HR/Payroll in Schools	To undertake a thematic review of management of HR and Payroll in a sample of schools to provide assurance that key procedures and requirements are complied with by schools to manage the increasing risk of inappropriate recruitment practices in schools.	30
Regularity audits at schools	We will increase the frequency of regularity audits at schools using a risk based approach. A present, schools are audited every 5 years unless assigned limited assurance, in which case, a follow up audit is also undertaken.	80
Development and Renewal		
Grants Monitoring – Compliance testing	To undertake compliance testing of the grants monitoring procedures and to support the monitoring officers in developing systems, procedures and testing programmes for monitoring of grants.	30
Communities, Localities and Culture		
Procurement of Technical Services	This audit will review the arrangements within the Directorate for commissioning various Technical Services for procurement of contracts for building projects and for project managing the works.	10

Resources		
Processing of Credit Notes from Suppliers	This review will examine controls for managing and processing credit notes from suppliers to provide assurance that the systems are sound and secure.	10
Tollgate Reviews	We will examine the systems and controls for Tollgate reviews carried out to govern and steer the procurement of goods and services over £250K.	20

Appendix 3

London Borough of Tower Hamlets 2014/15 Internal Audit Plan

	Audit Days	Pages
Corporate systems and Council–wide reviews	30	5
Director of Law, Probity and Governance	30	6
Education, Social Care & Wellbeing	350	7-9
Communities, Localities & Culture	170	10-11
Tower Hamlets Homes	130	12-13
Development & Renewal	150	14-15
Resources & core financial systems	296	16-18
Information technology audits	100	20
Follow up, management and reactive fraud provision	185	20
Total Provision	**1,441**	**-**

Auditable System	Broad Scope	Audit Days	Source of Audit	Link with Corporate Priorities
Corporate Systems & Council Wide Reviews				
Management and Control of Waivers of Financial Regulations	The objective is to provide assurance that there are sound systems and controls for management and monitoring of waivers to Council's financial regulations.	15	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Employment Options	This will be a compliance audit on the Council's ER/VR procedures to provide assurance that the necessary controls have been complied with.	15	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council

Auditable System	Broad Scope	Audit Days	Source of Audit	Link with Corporate Priorities
Director of Law, Probity and Governance				
Information Governance Confidentiality Audits	This review will examine systems and controls for confidentiality audits to meet the requirements set in the IG Toolkit.	10	Management Request	**One Tower Hamlets** Working efficiently and effectively as One Council
Risk Management	To carry out testing around the effectiveness of risk identification, risk assessment, control identification and management of risks and opportunities	10	Management Request	**One Tower Hamlets** Working efficiently and effectively as One Council
Data Quality	To carry out Data Quality checks on a sample of 4 Performance Measures, as agreed with the Senior Performance Officer.	10	Management Request	**One Tower Hamlets** Working efficiently and effectively as One Council

Auditable System	Broad Scope	Audit Days	Source Of Audit	Link with Corporate Priorities
<u>Education, Social Care & Wellbeing</u>				
Building Contract Audit	This audit will examine systems and controls for managing and monitoring capital works contracts. A sample of capital projects in progress will be selected for audit testing at pre-contract, currency of contract and post contract stages.	20	Audit Needs Analysis	**A Prosperous Community** Support lifelong learning opportunities for all
Framework –I	This will be an audit of the controls around ordering, paying and general data quality on Framework-I system for Adults Social Care.	15	Management Request	**A Safe and Supportive Community** Empower Older and Vulnerable People
Management and Control of Cleaning Contract services	This audit will examine systems and controls for managing the Cleaning contracts operated by the Contract Services team.	15	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Management and Control of Leaving Care services	This audit will assess the effectiveness of controls for managing the Children's Leaving Care services.	15	Audit Needs Analysis	**A Safe and Supportive Community** Focus on Early Intervention
Management and Control of Youth Offending Services	The objective of this audit is to examine and evaluate the effectiveness of systems and controls for management of various Youth Offending services.	15	Management Request	**A Safe and Supportive Community** Focus on Early Intervention

Auditable System	Broad Scope	Audit Days	Source Of Audit	Link with Corporate Priorities
Education, Social Care and Wellbeing				
Monitoring of Adults Social Care contracts with Third Sector Organisations	This will be a review of systems and controls for monitoring Adults Social Care services delivered by voluntary organisations to ensure that the providers deliver these contracts effectively and provide good value for money.	20	Audit Needs Analysis	**A Safe and Supportive Community** Focus on Early Intervention
Risk Management	To carry out testing around the effectiveness of risk identification, risk assessment, control identification and management of risks and opportunities.	15	Management Request	**One Tower Hamlets** Working efficiently and effectively as One Council
Schools Probity Audits	The objective of this audit is to carry out programmed regularity audit visits to primary, secondary and special schools to ensure that delegated budgets and functions are managed and controlled effectively by schools.	120	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council

Auditable System	Broad Scope	Audit Days	Source of Audit	Link with Corporate Priorities
Education, Social Care & Wellbeing				
Management and Control of Adoption services	This audit will examine systems and controls for managing the Adoption services to ensure that key standards, procedures and requirements are complied with.	15	Management Request	**A Safe and Supportive Community** Focus on Early Intervention
Management and control of petty cash accounts	This audit will carry out compliance testing on management and control of various petty cash accounts operated by the Directorate.	10	Audit Needs Analysis and Management Request	**One Tower Hamlets** Working efficiently and effectively as One Council
Ben Jonson School	Probity audit followed by an investigation into the financial management of the school.	20	Management Request	**One Tower Hamlets** Working efficiently and effectively as One Council
Mulberry School	Probity review of procedures followed in procuring photocopiers for the school	10	Management request	**One Tower Hamlets** Working efficiently and effectively as One Council

Auditable System	Broad Scope	Audit Days	Source of Audit	Link with Corporate Priorities
Education, Social Care & Wellbeing				
Public Health Contracts	This audit will examine systems and controls for monitoring a sample of Public Health contracts to ensure that the client – side monitoring is sound and effective.	20	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Customer Journey- First Response	This will be a review of the processes for First Response Services to ensure that there are sound systems and controls in place and objectives are achieved.	10	Management Request	**A Safe and Supportive Community** Focus on Early Intervention
Troubled Families – Grant Verification	This audit will verify the grant claim in respect of the Troubled Families Grant.	15	Management Request	**A Safe and Supportive Community** Focus on Early Intervention
Failed Visits	This audit will review procedures for recording and monitoring failed visits to vulnerable service users.	15	Management Request	Focus on Early Intervention

Auditable System	Broad Scope	Audit Days	Source of Audit	Link with Corporate Priorities
Communities, Localities & Culture				
Management and Control of Blue Badges	This audit will examine systems and controls for management and administration of Blue Badges issued to eligible residents.	15	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Current Contract Audit	This audit will examine systems and controls for managing and monitoring capital works contracts. A sample of capital projects in progress will be selected for audit testing.	20	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Parking Income	This audit will examine systems and controls for managing and administering on-street parking income, including electronic cashless payments.	15	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Management and control of Animal Warden service	This audit will assess the effectiveness of controls for managing the Animal Warden Service.	15	Management Request	**One Tower Hamlets** Working efficiently and effectively as One Council
Refuse Collection and Disposal - Contract Management and Monitoring	The objective of this audit is to examine and evaluate the effectiveness of systems and controls for client-side monitoring of the contracts.	20	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council

Auditable System	Broad Scope	Audit Days	Source of Audit	Link with Corporate Priorities
Communities, Localities & Culture				
Transport Services	This will be a review of systems and controls within Transport Services Unit to ensure that key service priorities are delivered effectively.	15	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Risk Management	To carry out testing around the effectiveness of risk identification, risk assessment, control identification and management of risks and opportunities.	15	Management Request	**One Tower Hamlets** Working efficiently and effectively as One Council
Rechargeable Works	The objective of this audit is to examine systems and controls for managing rechargeable works to ensure that all such works are identified, assessed and income raised and collected for the works carried out.	15	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Poplar Mortuary	This audit will be a regularity audit to provide assurance that key standards, procedures and requirements are being complied with.	10	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council

Auditable System	Broad Scope	Audit Days	Source of Audit	Link with Corporate Priorities
Communities, Localities & Culture				
Best Value Review – Policing ASB	To undertake a best value review of how the MPS delivers the investment made by the Council in policing ASB within the borough.	15	Management Request	**One Tower Hamlets** Working efficiently and effectively as One Council
Parking Permits	This audit will review arrangements for issuing residential and other parking permits to those eligible.	15	Management Request	**One Tower Hamlets** Working efficiently and effectively as One Council

Auditable System	Broad Scope	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Tower Hamlets Homes</u>				
Management and Control of Housing Repairs	This audit will examine the systems and controls for management and monitoring of reactive housing repairs works carried out to tenanted dwellings.	15	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Management of Asbestos	This audit will examine systems and procedures for management of Asbestos to assure management that key standards and procedures are in place.	15	Management Request	**One Tower Hamlets** Working efficiently and effectively as One Council
Financial Systems	This will be an annual review of financial systems.	10	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Contract Audit	This audit will examine systems and controls for managing and monitoring capital work projects. A sample of capital schemes will be selected for audit testing at pre-contract, currency of contract and post-contract stages.	20	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Housing Insurance Claims	This audit will assess the effectiveness of controls for managing the housing insurance claims. This will be consultancy	15	Management Request	**One Tower Hamlets** Working efficiently and effectively as One Council

piece of work.

Auditable System	Broad Scope	Audit Days	Source of Audit	Link with Corporate Priorities
Tower Hamlets Homes				
Management and Monitoring of Out of Hours Repairs	This review will examine systems and controls for monitoring Out of Hours Repairs processed by THH, through LBTH via Vangent and by various repairs contractors	10	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Follow Up Audits	To carry out follow up audits to assess the progress made in implementing previously agreed recommendations.	20		**One Tower Hamlets** Working efficiently and effectively as One Council
Management Requests	To service management requests for additional audit work.	10		**One Tower Hamlets** Working efficiently and effectively as One Council

Auditable System	Broad Scope	Audit Days	Source of Audit	Link with Corporate Priorities
<u>Development & Renewal</u>				
Management and Control of Community Infrastructure Levy	This audit will examine the systems and controls for management and administration of CIL.	15	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Management and Control of Community Chest programme	This audit will examine systems and controls for managing and monitoring Community Chest grants.	15	Management Request	**One Tower Hamlets** Working efficiently and effectively as One Council
Management and Delivery of Homelessness Strategy	The objective of this audit is to assure management that Homeless Strategy is being delivered effectively to achieve objectives and priorities of the Council.	10	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Contract Audit	This audit will examine systems and controls for managing and monitoring capital work projects. A sample of capital schemes will be selected for audit testing at pre-contract, currency of contract and post-contract stages.	20	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Management and monitoring of Energy contracts	This audit will assess the effectiveness of controls for managing and monitoring the borough-wide contracts for the supply of gas and electricity.	15	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council

Auditable System ***Development & Renewal***	Broad Scope	Audit Days	Source of Audit	Link with Corporate Priorities
Management and Control of Housing Improvement and Renovation Grants	The objective of this audit is to examine and evaluate the effectiveness of systems and controls in place for awarding, monitoring and paying for improvement and renovation grants.	15	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Risk Management	To carry out testing around the effectiveness of risk identification, risk assessment, control identification and management of risks and opportunities.	15	Management Request	**One Tower Hamlets** Working efficiently and effectively as One Council
Tower Hamlets Homes – Client side Monitoring	The objective of this audit is to examine systems and controls for client-side management and monitoring of the Management Agreement with THH to deliver housing services for the Council.	15	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Management and Control of s.106 non-financial obligations	This audit will review the controls in place for ensuring that s.106 non-financial obligations are managed and controlled to secure their delivery in accordance with the agreements.	15	Management Request	**One Tower Hamlets** Working efficiently and effectively as One Council
Asset Management	This will be a review of systems and controls for management of Council's assets to achieve the key priorities and objectives.	15	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council

Auditable System	Broad Scope	Audit Days	Source of Audit	Link with Corporate Priorities
Resources				
Management of Business Rate Retention Scheme	To provide assurance over the soundness and adequacy of the business rate retention scheme.	15	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Bank Reconciliation	We will examine the arrangements for the bank reconciliation of Council's various bank accounts.	10	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Debtors incl. Recovery and write-offs	To provide assurance to management in preparing the annual statement of accounts and to support the authority's **"Managed" audit approach.**	15	Part of Managed Audit approach	**One Tower Hamlets** Working efficiently and effectively as One Council
Treasury Management	Annual Review of key financial system	10	Part of Managed Audit approach	**One Tower Hamlets** Working efficiently and effectively as One Council
HR/payroll	Annual Review of key financial system	15	Part of Managed Audit approach	**One Tower Hamlets** Working efficiently and effectively as One Council
General Ledger	Annual Review of key financial system	15	Part of Managed Audit approach	**One Tower Hamlets** Working efficiently and effectively as One Council
Budgetary control	Annual Review of key financial system	10	Part of Managed Audit approach	**One Tower Hamlets** Working efficiently and effectively as One Council

Auditable System	Broad Scope	Audit Days	Source of Audit	Link with Corporate Priorities
Resources				
Creditors	Annual Review of key financial system	15	Part of Managed Audit approach	**One Tower Hamlets** Working efficiently and effectively as One Council
NNDR	Annual Review of key financial system	10	Part of Managed Audit approach	**One Tower Hamlets** Working efficiently and effectively as One Council
Council Tax	Annual Review of key financial system	10	Part of Managed Audit approach	**One Tower Hamlets** Working efficiently and effectively as One Council
Capital Programme and Accounting	Annual Review of key financial system	10	Part of Managed Audit approach	**One Tower Hamlets** Working efficiently and effectively as One Council
Pensions	Annual Review of key financial system	8	Part of Managed Audit approach	**One Tower Hamlets** Working efficiently and effectively as One Council
Housing and Council Tax Benefit	Annual Review of key financial system	15	Part of Managed Audit approach	**One Tower Hamlets** Working efficiently and effectively as One Council
Risk Management	To carry out testing around the effectiveness of risk identification, risk assessment, control identification and management of risks and opportunities	15	Management Request	**One Tower Hamlets** Working efficiently and effectively as One Council

Auditable System	Broad Scope	Audit Days	Source of Audit	Link with Corporate Priorities
Resources				
Housing rents	Annual Review of key financial system	8	Part of Managed Audit approach	**One Tower Hamlets** Working efficiently and effectively as One Council
Reconciliation of Feeder systems with GL	Annual Review of key financial system	15	Part of Managed Audit approach	**One Tower Hamlets** Working efficiently and effectively as One Council
Systems Development and Variation Control for Future Sourcing Contract	This audit will review the effectiveness of systems and controls for monitoring ICT systems development work packages referred to Agilisys. We will also review the soundness of systems for controlling and monitoring variations to the contract.	15	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
HR Improvement - Systems development and advice	This audit will be part of the HR systems development review and advice	10	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Cash and Deposit System	Annual Review of key financial system	15	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Post completion review of the new Financial Information System	This will be a complete post-implementation review of the new financial information system.	10	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council

Auditable System	Broad Scope	Audit Days	Source of Audit	Link with Corporate Priorities
Resources				
Revenues, Processing and Reconciliation Functions (ex-Cahiers)	This audit will review the systems and processes for managing and controlling the various functions within the Revenues, Processing and Reconciliation service based at Roman Road.	10	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Management of Efficiency Savings Programme	Review of systems and controls for managing and monitoring the Council's savings programme.	15	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
CIS Compliance Testing	This audit involved testing of Council's compliance with CIS regulations.	10	Management Request	**One Tower Hamlets** Working efficiently and effectively as One Council
Reactive Work	This was an inquiry into procurement of a contract and other associated issues.	15		**One Tower Hamlets** Working efficiently and effectively as One Council

Auditable System	Broad Scope	Audit Days	Source of Audit	Link with Corporate Priorities
Information Technology				
ICT Audits	This will be a programme of ICT systems and applications audits.	100	Audit Needs Analysis	**One Tower Hamlets** Working efficiently and effectively as One Council
Other				
Management Requests	Provision for additional management requests	10		**One Tower Hamlets** Working efficiently and effectively as One Council
Reactive Fraud	Provision for reactive fraud work	20		**One Tower Hamlets** Working efficiently and effectively as One Council
Follow Up audits	Provision for undertaking follow up to recommendations raised during 2013/14.	105		**One Tower Hamlets** Working efficiently and effectively as One Council
Management Time	This is a provision for management time to direct, control and monitors the work of the team.	50		**One Tower Hamlets** Working efficiently and effectively as One Council

REPORT TO: **Audit Committee**	DATE **4th February 2015**	CLASSIFICATION **Unrestricted**	REPORT NO.	AGENDA NO.
REPORT OF: **Corporate Director, Resources** ORIGINATING OFFICER(S): **Head of Risk Management and Audit**		**Annual Internal Audit Report for Schools- 2013/14** Ward(s) Affected: **N/A**		

1. SUMMARY

1.1. This report (attached) summarises the work of Internal Audit in relation to the audit of schools for the financial year 2013/14.

1.2. The purpose of the report is to provide an overview of audit findings and facilitate a thematic assessment of the matters raised by Audit. It is envisaged that this assessment will be used by the service to enhance the governance framework around schools.

1.3. During the financial year 2013-14, audit visits were carried out at 27 schools. Each audit visit involved compliance testing of system and procedures in 12 areas of control in accordance with a pre-agreed audit test programme.

2. RECOMMENDATION

2.1. The Audit Committee is asked to note the contents of this report and to take account of the matters raised by Audit in each of the 12 areas examined.

3.1 Comments of the Chief Financial Officer

3.1 There are no financial implications as a result of recommendations within this report.

3.2 However, the lack of financial control identified in some schools through the annual audit process could have significant adverse implications for those school budgets should they not be addressed. Furthermore, there is also the risk that value for money is not being secured.

4. Legal Comments

4.1. The Audit Commission's Guidance, 'Keeping Your Balance' sets out that the accounts of schools with delegated budgets are subject to regular internal audit and are available for inspection as necessary by the Council's external auditor. Internal auditors review the management of the school's finances on behalf of the Council. Local authority external auditors are appointed by the Audit Commission to assess the legality and regularity of financial affairs and to ensure that the Council has made proper arrangements to secure value for money.

4.2. The Council is required to ensure that it has a sound system of internal control that facilitates effective exercise of the Council's functions and includes arrangements for the management of risk. The Council is also required to maintain an effective system of internal audit of its system of internal control in accordance with proper practices by applying the Public Sector Internal Audit Standard which came into force on 1 April 2013. One of the functions of the Audit Committee under the Council's Constitution is to review internal audit findings. The consideration by the Audit Committee of this report is consistent with the Council's obligations and is within the Committee's functions.

5. One Tower Hamlets

5.1. There are no specific One Tower Hamlets considerations.

5.2. There are no specific Anti-Poverty issues arising from this report.

6. Risk Management Implications

6.1. This report highlights weaknesses in financial control and management in 14 out of the 27 schools visited by Internal Audit during 2013/14. The audit work during the current financial year shows that this trend is continuing. Weaknesses in financial control and management in schools can present reputational, value for money and fraud risk to the Local Authority. Internal Audit has had discussions with the Corporate Director - Education, Social Care and Wellbeing to take the necessary steps and a joined-up approach is currently being developed.

7. Sustainable Action for a Greener Environment (SAGE)

7.1. There are no specific SAGE implications.

ANNUAL REPORT
TO
CORPORATE DIRECTOR – EDUCATION, SOCIAL CARE AND WELLBEING
ON
STANDARDS OF INTERNAL CONTROL FOR SCHOOLS AUDITED DURING 2013/14

CONTENTS

REPORT ON STANDARD OF INTERNAL CONTROL FOR SCHOOLS AUDITED DURING 2013/14

1. Introduction

1.1. This report summarises key audit findings and conclusions made during the conduct of school probity audits during the financial year 2013/14.

1.2. The objective of this report is to provide assurance to the Corporate Director as to whether the Head Teachers and Governing Bodies have implemented adequate and effective internal controls over the administration and financial monitoring of the Borough's schools.

1.3. During the 2013/14 financial year, Internal Audit carried out probity audit visits to 18 primary schools, two secondary schools, one junior school, two infant schools, two nursery schools and two special schools (it should be noted eight reports are still at draft stage at the time of writing this report). An audit programme which incorporates the guidance issued by the Audit Commission in 'Keeping your Balance' is followed in undertaking schools audits. A probity audit based methodology is used which involves assessing the school against the identified controls documented within the audit test programme devised for the London Borough of Tower Hamlets. The audit process involves audit testing, evaluating and reporting upon key financial and management controls.

1.4. The 12 control areas examined during the audit are:-

- Operation of Governance Processes;
- Financial Planning and Budgetary Control;
- Control and Monitoring of Schools Bank Account;
- Procurement, including Large Single Purchases, Tendering and Value for Money;
- Accounting of Income and Expenditure;
- Charging Policy, Income Collection and Banking;
- Personnel and Payroll Management;
- School Meals;
- Voluntary Fund and School Journey;
- Asset Controls and Security of Assets;
- Security of the IT Infrastructure, Disaster Recovery and Data Protection; and
- Risk Management and Insurance.

1.5. As a result of the 27 probity audits undertaken in 2013/14, 13 schools were assigned a Substantial Assurance opinion and 14 schools were assigned a Limited Assurance opinion (including eight at the draft report stage).

1.6 Appendix A provides a breakdown of assurance opinions covering the period 2010/11 to 2013/14 for comparison purposes, whilst appendix B provides an analysis of key issues identified for the same period. Full details of the issues are included in the respective areas of this report detailed below.

2. Most Common Findings

2.1. All schools visited during the year had Governing Bodies collectively responsible for the overall direction and strategic management. However, the effectiveness of school governance could be improved by ensuring that key decisions are accurately minuted as ratified/agreed by the Governing Body. The most common weakness identified was that policies and procedures were not subject to periodic review by the Governing Body, and recorded as such in the relevant meeting minutes.

2.2. Governing Body and Committee meeting minutes were not always checked and signed by the respective Chair to ensure they provide an accurate account of decisions made. This was raised in the 2011/12 and 2012/13 CMT report.

2.3. Schools have not maintained an up to date register of business interests for all Governors on the Governing Body and/or all staff with financial management responsibilities. This was raised in the 2011/12 and 2012/13 CMT report.

2.4. Terms of reference have not been drawn up for all sub-committees. Where they have been drawn up, they have not been reviewed annually and approved by the Governing Body. Furthermore, inconsistencies were found between required meeting frequencies and the actual meeting frequencies that took place. This was raised in the 2011/12 and 2012/13 CMT report.

2.5. Budget monitoring reports had not been evidenced as reviewed by the Head Teacher.

2.6. In a number of instances schools did not retain an up-to-date bank mandate for its current, fund and special interest bearing bank accounts that reflected the school's Scheme of Delegation. This was raised in the 2012/13 CMT report.

2.7. A common weakness was that official orders were not raised by all schools to support purchases and there was a lack of documentary evidence that the goods and services received are checked for accuracy before payment and that delivery documentation was appropriately annotated. This was raised in the 2012/13 CMT report.

2.8. The appropriate number of quotes were not always obtained as part of the procurement process and retained on file. Where it was not practical to obtain the required number of quotes, waivers were not always completed in line with the Schools Financial Regulations. This was raised in the 2012/13 CMT report.

2.9. In a number of instances, petty cash payments were made before the completion of a petty cash form. As well as this, the financial limit for petty cash, as stipulated in the Schools Financial Regulations, was exceeded. This was raised in the 2012/13 CMT report.

2.10. Bank and Payroll reconciliations were not checked and signed off by an independent senior member of staff to evidence segregation of duties. This was raised in the 2012/13 CMT report.

2.11. Governors have not always approved a Charging Policy. Where a policy was in place, it was not always up to date. This was raised in the 2012/13 CMT report.

2.12. The Governing Body has not always approved a Pay Policy and where these were in place they were not always up to date. This was raised in the 2012/13 CMT report.

2.13. Starters and leavers documentation was not consistently authorised in a timely manner or retained on file. This was raised in the 2012/13 CMT report.

2.14. Regular verification and liaison with the local authority to identify only those pupils who are entitled to free school meals are receiving them did not always occur. Where this check did occur, evidence supporting the pupils' entitlement was not always retained by the school. This was raised in the 2012/13 CMT report.

2.15. In a number of instances the costing of school journeys were not fully documented, presented to the school's Financial Committee, and retained. This was raised in the 2012/13 CMT report.

2.16. Annual inventory checks are not performed consistently across all schools, and where performed, the results of these inventory checks are not always reported to the Governing Body. Portable and valuable assets were not always visibly and indelibly security marked by the school. Furthermore, equipment loan registers did not generally specify employees' liability/responsibility for equipment. Disposals of assets were not appropriately authorised by an individual within their delegated limits. This was raised in the 2012/13 CMT report.

2.17. In a number of instances the amount of cash held on premises by the school was in excess of the school's insurance limit. This was raised in the 2012/13 CMT report.

3. Key Findings by Audit Area

3.1. Operation of Governance Processes

3.1.1 All schools had in place a Scheme of Delegation and Financial Procedures Manual. However, in a number of cases these were not up to date with evidence of regular review by the Governing Body. Inconsistencies in delegations were identified between the two documents.

3.1.2 The full Governing Body and sub-committee meetings are generally held termly and the minutes have usually been prepared. In several instances, there was no evidence of meeting minutes being presented to and approved by the appropriate Chair.

3.1.3 Where the Governing Body has set up sub-committees, terms of reference had not been approved and reviewed annually in a number of instances.

3.1.4 In several instances, key policies and procedures had not been evidenced as reviewed on a periodic basis. Evidence of approval should be documented in the relevant meeting minutes.

3.1.5 In most schools, the Register of Business Interests was not up-to-date with missing declarations for Governors on the Governing Body and staff with financial management responsibilities. However, the opportunity to declare interests is a standing item on most agendas of the Governing Body meetings.

3.2. Financial Planning, Budget Setting, Monitoring and Forecasting

3.2.1 Schools have generally produced comprehensive School Development Plans which include three year targets. The plan is produced and reviewed each financial year to help ensure resource implications are considered during the budget setting process. Governors are regularly updated on the progress against targets within the plan. However, in some instances approval of the plan was not evidenced adequately in minutes of meetings, and financial commitments were not always clearly outlined in the plan.

3.2.2 For the majority of schools the Chair of Governors and the full Governing Body had approved the budget plans in a timely manner. Income is profiled as part of budget planning and the results of budget monitoring are reported to the Finance sub-committee. Budget monitoring is usually undertaken either monthly or as a minimum on a quarterly basis. However, in a large number of cases, budget monitoring reports had not been evidenced as reviewed by the Head Teacher.

3.2.3 Material variances were investigated and corrective action identified. Virements are generally presented to the appropriate committee.

3.3. Control and Monitoring over School Bank Accounts

3.3.1 Bank accounts were not always administered in accordance with the requirements of the approved bank account mandates as bank mandates have been found to be out of date in some cases. In most cases a copy of the bank mandate was retained by the school.

3.3.2 Adequate arrangements have been established to support separation of duties over cheque production. Safe security and printed cheque security procedures were adequate.

3.3.3 Schools have ensured that surplus funds are identified and adequate arrangements made to maximise returns on the account balances.

3.3.4 Bank reconciliations were generally complete and performed in a timely manner, and these reconciliations were mostly independently checked to confirm completeness and accuracy. In some instances bank reconciliations had not been signed by both the individual performing the reconciliation and the individual carrying out its independent review.

3.3.5 Most schools had banked income received at the school in a timely manner and as a result ensured excessive amounts of cash were not held on site. However, in some instances schools were found to be holding amounts of cash in excess of the maximum insured amount.

3.4. Procurement (including Large Single Purchases, Tendering & VFM)

3.4.1. In several instances, appropriate number of quotes were not always obtained as part of the procurement process and retained on file. Where it was not practical to obtain the required number of quotes, waivers were not always completed in line with the Schools Financial Regulations.

3.4.2 Official orders were not raised in several instances to support purchases and therefore it was unclear whether the availability of budget was checked prior to purchasing or that purchases were authorised by appropriate individuals in accordance with their delegated limits. There was a lack of documentary evidence in some instances that the goods received are checked for accuracy and that delivery documentation was appropriately annotated.

3.4.3 Invoices sampled were arithmetically correct although in some cases it was not documented that the invoice had been certified for payment. Segregation of duties for procurement was generally evidenced.

3.4.4 Procedures were found to be in place for most procurements using a debit card.

3.5. Accounting of Income and Expenditure

3.5.1 Direct credits and debits were posted in a timely manner in most cases, and journal entries on the financial accounting system appeared reasonable.

3.5.2 There were several instances where a weakness in the petty cash process was identified. These related to vouchers not being completed fully or authorisation of payments which exceed limits laid out in the school's Financial Code of Practice.

3.6. Charging Policy and Income Collection and Banking

3.6.1 Governors have not always approved a documented Charging Policy. Where one was in place, the policy was not always being kept up to date.

3.6.2 Official receipts were used where appropriate and where receipts were not issued compensatory records were generally adequate and reliable.

3.6.3 Most schools had a documented Lettings Policy in place where appropriate which included the terms and conditions for hiring the premises. Agreements were not always signed between the school and persons / groups hiring the premises. Charges were made in compliance with an approved rate.

3.6.4 In the most cases income was regularly and fully banked and periodically reconciled to the cash-book within the school's financial accounting system. In some instances, banking was not completed in a timely manner.

3.6.5 Records were not always maintained in relation to transfer of income between staff. There was an inadequate trail to confirm the person from whom income had been received, the date of receipt, the amount received and the date the income was banked.

3.7. Personnel and Payroll Management

3.7.1 Where the Governing Body has approved a Pay Policy, these were in several of the schools not kept up-to-date. In some instances, where they were reviewed annually by a delegated committee, they were not consequently approved by the Governing Body.

3.7.2 Evidence of pre-recruitment checks is not always obtained / retained, such as identity checks, references, right to work checks, medical checks, and qualifications checks. Letters of resignation / termination were not always held on file in respect of leavers.

3.7.3 It was identified in two schools that DBS/CRB information was not held for a member of staff (both currently at the draft report stage).

3.7.4 Payroll reconciliations are undertaken in all schools. However, in many cases there was no evidence of a senior member of staff having performed an independent review of the reconciliation.

3.8. School Meals

3.8.1 In several cases, schools did not retain proof of entitlement for all appropriate pupils and in some cases an appropriate system was not in place to ensure that their free school meals list was up to date.

3.8.2 Income due from pupils for school meals is recorded and accounted for and records identify arrears and credits.

3.9. Voluntary Fund and School Journey

3.9.1 The Governing Body in all schools visited approved the objectives of the Voluntary Fund account. In most instances the Voluntary Fund account had been independently audited within the last 12 months.

3.9.3 Schools did not always maintain evidence of how school journeys were costed and certified summary accounts for each school journey were not produced.

3.9.4 The Governors have approved a documented Grants Policy in the majority of cases and these usually defined the criteria under which subsidies may be approved.

3.10. Asset Controls and Security of Assets

3.10.1 This area remains an area of weakness and represents one of the most consistent findings in audit reports. Inventory records are not always maintained up to date with new assets being added and disposed assets recorded in a timely manner.

3.10.2 Inventory checks are not always performed and the results of the inventory check are not always reported to the Governing Body. An adequate equipment loan register is not maintained for a number of schools and signed loan agreements did not highlight the employee's liability/responsibility for equipment.

3.11 *Security of the IT Infrastructure, Disaster Recovery, Data Protection*

3.11.1 Schools had evidence of registration under the Data Protection Act. Anti-virus software had been installed on financial and administration systems with adequate computer back up procedures.

3.11.2 Most schools had adequate password settings in place with the need for alpha numeric characters and the need to change passwords on a periodic basis.

3.11.3 In just one instance it was identified that a former member of staff's account had yet to be removed on the financial administration system.

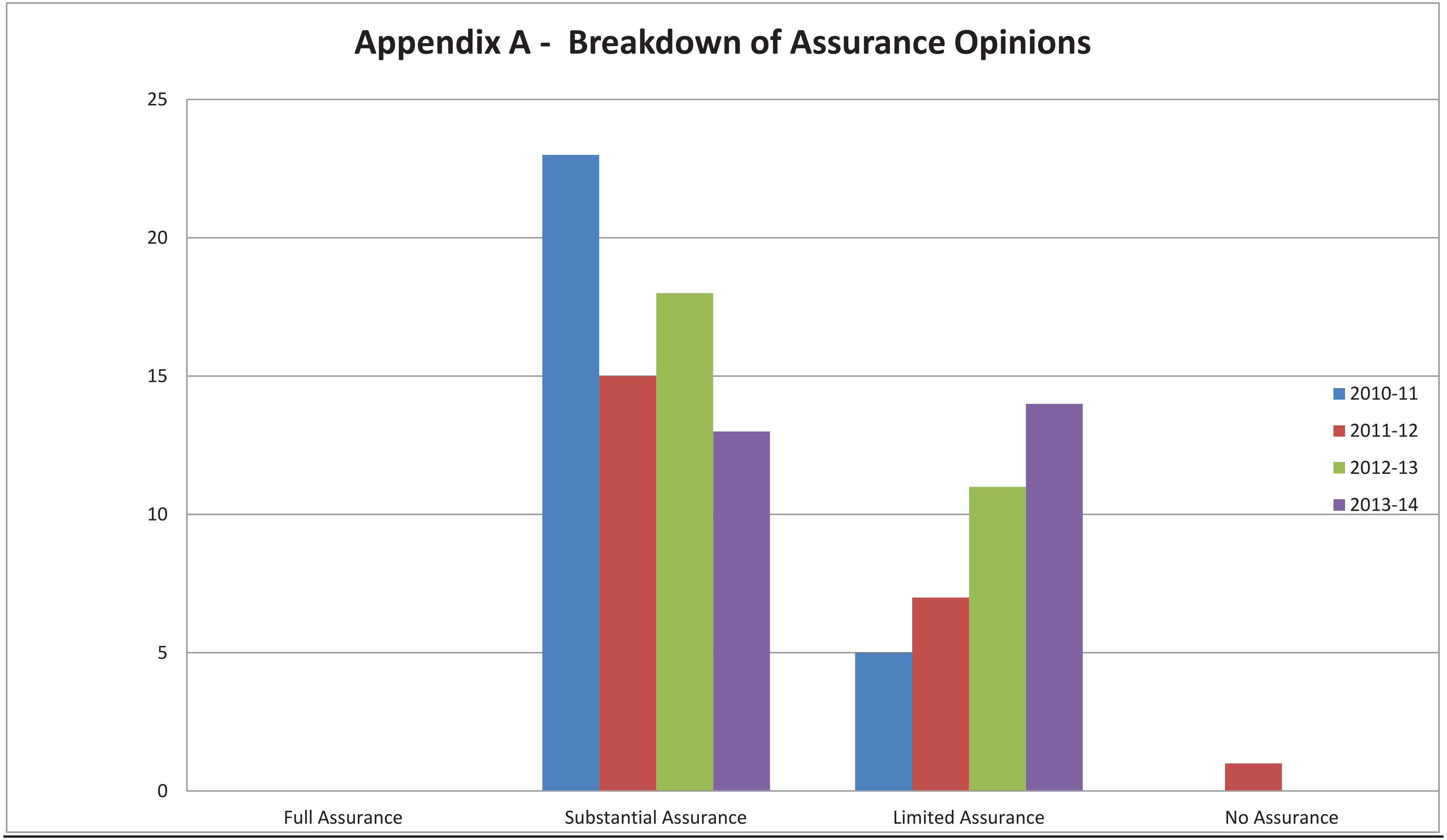
3.12. Risk Management and Insurance

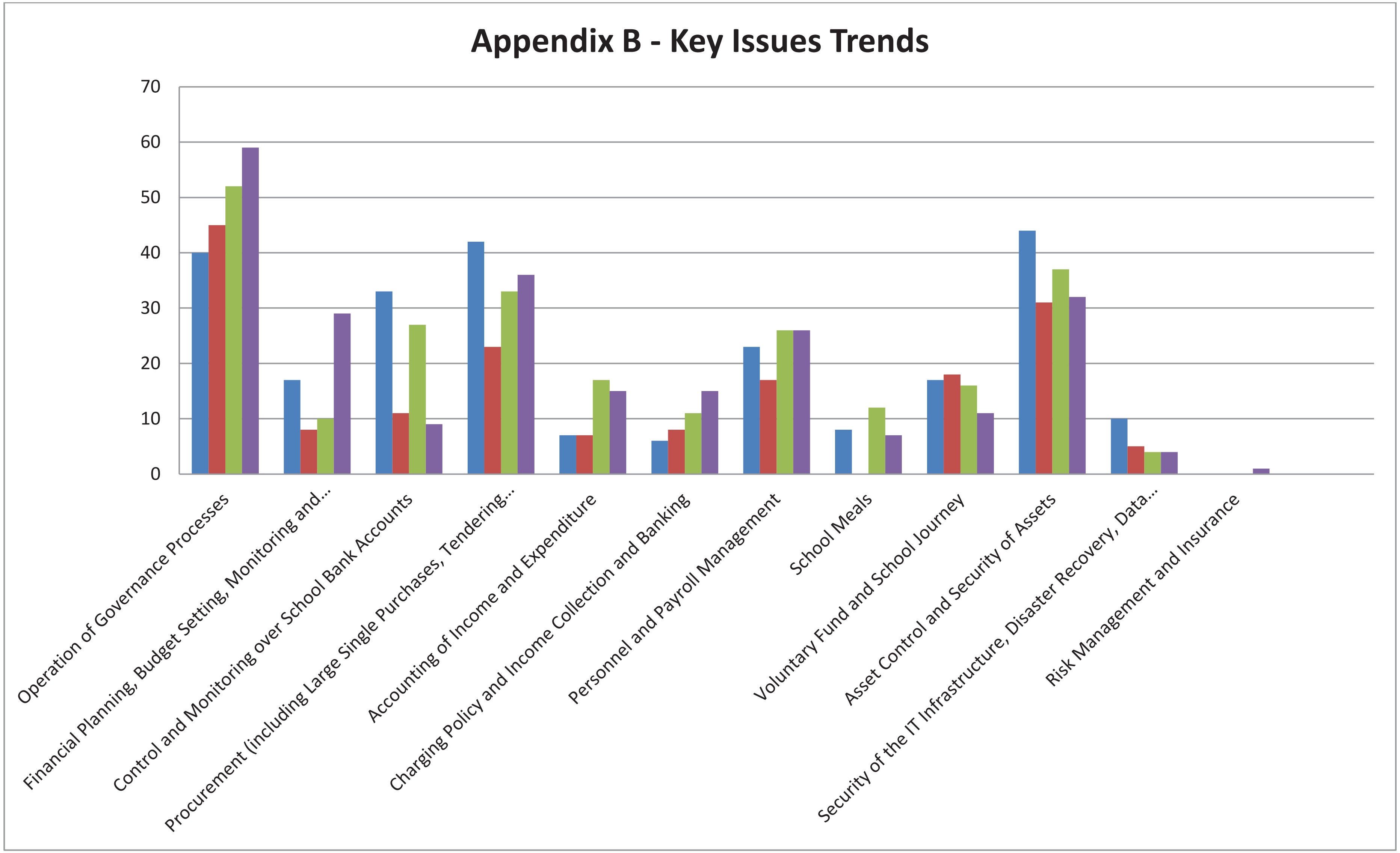
3.12.1 The Governing Body's approach to risk management in the development of the School Improvement Plan (where in place), School Journey, and Health and Safety were considered appropriate. Schools generally have adequate arrangements for insurance in place.

3.12.2 In one instance a specific risk management strategy was not in place relating to the disaggregation of a sixth form college.

4 Conclusions

4.1. Over half of the schools audited fell below the minimum standard of financial control and management and were assigned a limited assurance audit opinion. Improvements are required in all 12 areas of operation which were examined.


Appendix A - Breakdown of Assurance Opinions
25
20
15
10
5
0
Full Assurance
Substantial Assurance
Limited Assurance
No Assurance
2010-11
2011-12
2012-13
2013-14


Appendix B - Key Issues Trends
70
60
50
40
30
20
10
0
Operation of Governance Processes
Financial Planning, Budget Setting, Monitoring and...
Control and Monitoring over School Bank Accounts
Procurement (including Large Single Purchases, Tendering...
Accounting of Income and Expenditure
Charging Policy and Income Collection and Banking
Personnel and Payroll Management
School Meals
Voluntary Fund and School Journey
Asset Control and Security of Assets
Security of the IT Infrastructure, Disaster Recovery, Data...
Risk Management and Insurance

Report To:	Date	Classification	Report No.	Agenda Item No.
Audit Committee	**4February 2015**	**Unrestricted**		
REPORT OF: **Chris Holme, Acting Corporate Director of Resources** ORIGINATING OFFICER(S): **Bola Tobun, Investment & Treasury Manager**		**Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2015-16** WARD(S) AFFECTED: N/A		

Lead Member	**Cllr Alibor Choudhury – Resources**
Community Plan Theme	**All**
Strategic Priority	**One Tower Hamlets**

1. SUMMARY

1.1 The Council is required by legislation and guidance to produce three strategy statements in relation to its treasury management arrangements. The three statements are :

- a policy statement on the basis of which provision is to be made in the revenue accounts for the repayment of borrowing – Minimum Revenue Provision (MRP) Policy Statement;
- a Treasury Management Strategy Statement which sets out the Council's proposed borrowing for the financial year and establishes the parameters (prudential and treasury indicators) within which officers under delegated authority may undertake such activities; and
- an annual Investment Strategy which sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

1.2 This report also deals with the setting of Prudential Indicators for 2015-16, which ensure that the Council's capital investment decisions remain affordable, sustainable and prudent; the proposed indicators are detailed in Appendix 1. Under of the government's self-financing arrangements for the Housing Revenue Account (HRA) there are specific indicators relating to HRA capital investment.

1.3 The Council is required to have regard to the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2011) which requires the following:

- Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities (Appendix 4);
- Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives;
- Approval by Full Council of Minimum Revenue Provision Policy, an annual Treasury Management Strategy Statement - including the Annual Investment

Strategy and prudential indicators for the year ahead together with arrangements for a Mid-year Review Report and an Annual Report covering activities during the previous year;

- Cleardelegated responsibility for overseeing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions. For this Council the delegated body is the Audit Committee. The scheme of delegation for treasury management is shown in Appendix 5.

1.4 Officers will report details of the council's treasury management activity to the Audit Committee at each of its meetings during the year. Additionally, a mid-year and full-year report will be presented to Full Council. More detailed reporting arrangements are shown in Appendix 6.

1.5 The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training will be arranged as required for members of the Audit Committee who are charged with reviewing and monitoring the Council's treasury management policies. The training of treasury management officers is also periodically reviewed and enhanced as appropriate.

2. DECISIONS REQUIRED

2.1 Members are requested to note:-

2.1.1 The Minimum Revenue Provision Policy Statement set out in section 7 of this report;

2.1.2 The Treasury Management Strategy Statement set out in sections 8-11 of this report; and

2.1.3 The Annual Investment Strategy set out in section 12 & 13 of this report, which officers involved in treasury management, must then follow.

2.2 Members are also requested to note the delegation authority of the Acting Corporate Director of Resources, after consultation with the Lead Member for Resources, authority to vary the figures in this report to reflect any decisions made in relation to the Capital Programme prior to submission to Budget Council.

3 REASONS FOR DECISIONS

3.1 It is consistent with the requirements of treasury management specified by CIPFA, to which the Council is required to have regard under the Local Government Act 2003 and regulations made under that Act, for the Council to produce three strategy statements to support the Prudential Indicators which ensure that the Council's capital investment plans are affordable, sustainable and prudent. The three documents that the Council should produce are:

- Minimum Revenue Provision Policy Statement
- Treasury Management Strategy, including prudential indicators
- Investment Strategy

4 ALTERNATIVE OPTIONS

4.1 The Council is bound by legislation to have regard to the CIPFA requirements for treasury management. If the Council were to deviate from those requirements, there would need to be some good reason for doing so. It is not considered that there is any such reason, having regard to the need to ensure that the Council's capital investment plans are affordable, sustainable and prudent.

4.2 The strategies and policy statement put forward in the report are considered the best methods of achieving the CIPFA requirements. Whilst it may be possible to adopt variations of the strategies and policy statement, this would risk failing to achieve the goals of affordability, sustainability and prudence.

5. BACKGROUND

5.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity primarily before considering investment return.

5.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses.

5.3 CIPFA defines treasury management as:

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

5.4 **REPORTING REQUIREMENTS**-The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

I. **A treasury management strategy statement** (this report) – it covers:
   - a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
   - the capital plans (including prudential indicators);
   - the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
   - an investment strategy (the parameters on how investments are to be managed).

II. **A mid year treasury management report** – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

III. **A treasury outturn report** – This provides details of annual actual prudential and treasury indicators and annual actual treasury operations compared to the annual estimates within the strategy.

6. TREASURY MANAGEMENT STRATEGY FOR 2015/16

6.1 The strategy for 2015/16 covers two main areas:

Capital issues

- the minimum revenue provision (MRP) policy;
- the capital plans and the prudential indicators.

Treasury management issues

- prospects for interest rates;
- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy;
- service/policy investments.

6.2 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

6.3 The Council uses Capita Asset Services, Treasury solutions as its external treasury management advisors.The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

7. MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT

7.1 The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP).

7.2 The Department of Communities and Local Government (DCLG) require Councils to establish a policy statement on the MRP and has published guidance on the four potential methodologies to be adopted.

7.3 The guidance distinguishes between supported borrowing which relates to assumed borrowing which is incorporated into the Government's Formula Grant calculation and consequently has an associated amount of government grant and unsupported borrowing. Unsupported borrowing is essentially prudential borrowing the financing costs of which have to be met by the Council locally.

7.4 There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made pending finalisation of transitional arrangements following introduction of Self-Financing.

7.5 The DCLG guidance provides two options for the calculation of the MRP associated with each classes of borrowing.

7.6 The two options for the supported borrowing are variants of the existing statutory calculation which is based on 4% of the aggregate assumed borrowing for general fund capital investment - termed the Capital Financing requirement (CFR). The two options are:

- **Option 1** (Regulatory Method): To continue the current statutory calculation based on the gross CFR less a dampening factor to mitigate the impact on revenue budgets of the transition from the previous system. This calculation is further adjusted to repay debt transferred to the Council when the Inner London Education Authority (ILEA) was abolished.
- **Option 2** (Capital Financing Requirement Method): The statutory calculation without the dampener which will increase the annual charge to revenue budget.

7.7 The options purely relate to the timing of debt repayment rather than the gross amounts payable over the term of the loans. The higher MRP payable under option 2 will accelerate the repayment of debt.

7.8 It is recommended that because of budget constraints in the medium term the existing statutory calculation with the ILEA adjustment be adopted as the basis of the Councils MRP relating to supported borrowing.

7.9 The guidance provides two options for the MRP relating to unsupported borrowing. The options are:-

- **Option 3** (Asset Life Method): To repay the borrowing over the estimated life of the asset with the provision calculated on either an equal instalment or annuity basis. This method has the advantage of simplicity and relating repayments to the period over which the asset is providing benefit.
- **Option 4** (Depreciation Method): A calculation based on depreciation. This is extremely complex and there are potential difficulties in changing estimated life and residual values.

7.10 It is recommended that option 3 is adopted for unsupported borrowing.

7.11 The Council is required under regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2003 to determine for each financial year an amount of minimum revenue provision which it considers to be prudent. It is proposed that the Council makes Minimum Revenue Provision using Option 1 (Regulatory Method) for supported borrowing and Option 3 (Asset Life Method) for unsupported borrowing.

8. THE CAPITAL PRUDENTIAL INDICATORS 2015/16 – 2017/18

8.1 Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

8.2 **Capital expenditure** - This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital expenditure £m	2013/14 Actual	2014/15 Revised Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Education, social Care and Wellbeing	*15.269*	*22.552*	*31.404*	*22.004*	*12.000*
Communities, Localities and Culture	*7.598*	*7.128*	*11.616*	*2.465*	*2.465*
Building Schools for the future	*49.573*	*6.073*	-	-	-
Development & Renewal	*7.208*	*20.217*	*2.658*	*0.730*	-
Civic Centre		*12.000*	-	-	-
Total Non-HRA	**82.653**	**67.970**	**45.678**	**25.199**	**14.465**
Polar Baths and Dame Colet House		-	*5.991*	*9.189*	-
HRA	*50.255*	*115.622*	*97.031*	*61.522*	*1.594*
Total HRA	**50.255**	**115.622**	**103.022**	**70.711**	**1.594**
Total	**132.908**	**183.592**	**148.700**	**95.910**	**16.059**

8.3 Other long term liabilities. The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

8.4 The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Capital expenditure £m	2013/14 Actual	2014/15 Revised Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Non-HRA	82.653	67.970	45.678	25.199	14.465
HRA	50.255	115.622	103.022	70.711	1.594
Total	**132.908**	**183.592**	**148.700**	**95.910**	**16.059**
Financed by:					
Capital receipts	*(14.701)*	*(22.400)*	*(2.934)*	*(2.757)*	-
Capital reserves		*(0.389)*			
Capital grants&Developers contributors	*(95.131)*	*(106.35)*	*(54.771)*	*(15.005)*	*(15.275)*
Credit Arrangement			*(4.194)*	*(6.432)*	-

Major Repairs allowance	*(11.799)*	*(26.218)*	*(31.810)*	*(15.000)*	*-*
Direct Revenue Financing	*(10.258)*	*(18.135)*	*(34.911)*	*(0.813)*	*-*
Total Financed	**(131.889)**	**(173.497)**	**(132.719)**	**(56.247)**	**(15.275)**
Net financing need (Borrowing need) for the year	**1.019**	**10.095**	**15.980**	**39.663**	**0.784**

8.5 **The Council's borrowing need (the Capital Financing Requirement)-** The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life.

The Council is asked to approve the CFR projections below:

£m	**2013/14 Actual**	**2014/15 Revised Estimate**	**2015/16 Estimate**	**2016/17 Estimate**	**2017/18 Estimate**
Capital Financing Requirement					
CFR – non housing	190.455	198.052	202.842	203.875	196.096
CFR – housing	69.675	69.675	85.656	125.319	126.103
Total CFR	**260.130**	**267.727**	**288.498**	**329.194**	**322.199**
Movement in CFR		**7.597**	**20.770**	**40.696**	**(6.995)**
Movement in CFR represented by					
Net financing need for the year	**1.019**	**10.095**	**15.980**	**39.663**	**0.784**
Less MRP/VRP and other financing movements		(2.498)	4.790	1.033	(7.779)
Movement in CFR		**7.597**	**20.770**	**40.696**	**(6.995)**

8.6 The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

8.7 The Council has set the following **affordability prudential indicators** as prescribed by the code and these are set out below and detailed in Appendix 1.

8.8 **Ratio of financing costs to net revenue stream -** This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.The estimates of financing costs include current commitments and the proposals in this budget report.

%	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Non-HRA	2.29%	2.63%	2.74%	2.92%	3.04%
HRA	3.70%	4.01%	4.51%	6.49%	6.53%

8.9 **Incremental impact of capital investment decisions on council tax** - This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

£	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Council tax - band D	0.00	1.325	2.520	2.446	2.375

8.10 Estimates of the incremental impact of capital investment decisions on housing rent levels- Similar to the council tax calculation, this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in this budget report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels. This indicator shows the revenue impact on any newly proposed changes, although any discrete impact will be constrained by rent controls.

£	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Weekly housing rent levels	0.000	0.821	1.200	3.099	0.060

9. PROSPECTS FOR INTEREST RATES

9.1 The borrowing and investment strategy is in part determined by the economic environment within which it operates. The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives Capita's overall view on interest rates for the next three years.

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Dec 2014	0.50	2.50	3.90	3.90
Mar 2015	0.50	2.70	4.00	4.00
Jun 2015	0.75	2.70	4.10	4.10
Sep 2015	0.75	2.80	4.30	4.30
Dec 2015	1.00	2.90	4.40	4.40
Mar 2016	1.00	3.00	4.50	4.50
Jun 2016	1.25	3.10	4.60	4.60
Sep 2016	1.25	3.20	4.70	4.70
Dec 2016	1.50	3.30	4.70	4.70
Mar 2017	1.50	3.40	4.80	4.80
Jun 2017	1.75	3.50	4.80	4.80
Sep 2017	2.00	3.50	4.90	4.90
Dec 2017	2.25	3.50	4.90	4.90
Mar 2018	2.50	3.50	5.00	5.00

9.2 Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth has rebounded during 2013 and especially during 2014, to surpass all expectations, propelled by recovery in consumer spending and the housing market.

9.3 Forward surveys are also currently very positive in indicating that growth prospects are strong for 2015, particularly in the services and construction sectors. However, growth in the manufacturing sector and in exports has weakened during 2014 due to poor growth in the Eurozone.

9.4 There is a need for a significant rebalancing of the economy away from consumer spending to manufacturing, business investment and exporting in order for this initial stage in the recovery to become more firmly established. One drag on the economy is that wage inflation has been lower than CPI inflation so eroding disposable income and living standards, although income tax cuts have ameliorated this to some extent.

9.5 This therefore means that labour productivity must improve significantly for this situation to be corrected by warranting increases in pay rates. In addition, the encouraging rate at which unemployment has been falling must eventually feed through into pressure for wage increases, though current views on the amount of hidden slack in the labour market probably means that this is unlikely to happen in the near future.

9.6 The US, the main world economy, faces similar debt problems to the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth.

9.7 The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

a) As for the Eurozone, concerns in respect of a major crisis subsided considerably in 2013. However, the downturn in growth and inflation during the second half of 2014, and worries over the Ukraine situation, Middle East and Ebola, have led to a resurgence of those concerns as risks increase that it could be heading into deflation and a triple dip recession since 2008.

b) Sovereign debt difficulties have not gone away and major concerns could return in respect of individual countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;

c) Investment returns are likely to remain relatively low during 2015/16 and beyond;

d) Borrowing interest rates have been volatile during 2014 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. During July to October 2014, a building accumulation of negative news has led to an overall trend of falling rates. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;

e) There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

10. <u>TREASURY MANAGEMENT ISSUES</u>

10.1 The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The Council anticipates its fund balances in 2015/16 to average around £250m, if we persist with the policy of internal borrowing to fund the Council's underlying need to borrow.

10.2 The Pension Fund surplus cash of some £41m has been invested and will continue to be invested in accordance with the Council's Treasury Management Strategy agreed by Full Council, under the delegated authority of the Acting Corporate Director of Resources to manage within agreed parameters.

10.3 The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

10.4 **Core funds and expected investment balances** – The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales, etc.).

Detailed below are estimates of the year end balances of investments.

Year End Resources	2013/14 Actual	2014/15 Projected Outturn	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Expected Investments	£292.4m	£280m	£250m	£220m	£200m

10.5 **Current portfolio position** - The Council's treasury portfolio position at 31 March 2014, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£m	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
External Debt					
Debt at 1 April	90.406	88.893	97.921	112.013	150.706
Expected change in Debt	(0.842)	(0.672)	(1.067)	(1.889)	(0.970)
New borrowing	1.019	10.095	15.981	39.663	0.784
Other long-term liabilities (OLTL)	40.299	39.41	38.472	37.508	36.303
Expected change in OLTL	(0.889)	(0.938)	3.230	5.227	(1.347)
Actual gross debt (Inc. PFI) at 31 March	**129.990**	**136.788**	**154.537**	**192.522**	**185.476**
The Capital Financing Requirement (Inc. PFI)	**260.130**	**267.727**	**288.498**	**329.194**	**322.199**
Under / (over) borrowing	**130.140**	**130.939**	**133.961**	**136.672**	**136.723**

10.6 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2015/16 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

10.7 The Acting Corporate Director of Resources reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

10.8 **Treasury Indicators: limits to borrowing activity for 2014-15 to 2017-18** Treasury indicators are about setting parameters within which within which officers can take treasury management decisions. The Council has set the following treasury indicators as prescribed by the Code and these are set out below and also detailed in Appendix 1:

- **Authorised Limit for External Debt** – The upper limit on the level of gross external debt permitted. It must not be breached without Full Council approval.

The Council is asked to approve the following authorised limit:

Authorised limit £m	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Borrowing & OLTL	245.720	294.287	309.304	347.762
Headroom	20.000	20.000	20.000	20.000
Total	**265.720**	**314.287**	**329.304**	**367.762**

- **Operational Boundary for External Debt** – Most likely and prudent view on the level of gross external debt requirement. Debt includes external borrowings and other long term liabilities.

Operational Boundary£m	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Debt	206.310	255.815	271.796	311.459
Other long term liabilities	39.410	38.472	37.508	36.303
Total	**245.720**	**294.287**	**309.304**	**347.762**

- **HRA Debt Limit** – The HRA Self Financing regime came into effect on 1 April 2012. The new regime imposes a maximum HRA CFR on the Council. For the Council this has been set at £184m following repayment of HRA debt totalling £236.2m by Government as part of debt settlement that preceded the implementation of the HRA Self Financing regime. In 2014, As part of the Local Growth Fund LBTH were awarded £8.225m of additional HRA borrowing capacity, so in effect the HRA debt cap will go up from £184m to £192m.

HRA Debt Limit £m	2014/15 Projected Outturn	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
HRA debt cap	184.381	192.000	192.000	192.000
HRA CFR	69.675	85.656	125.319	126.103
HRA Headroom	**114.706**	**106.344**	**66.681**	**65.897**

Investment returns expectations

10.9 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

10.10 Policy Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 2 of 2015. Bank Rate forecasts for financial year ends (March) are:

- 2015/16 1.00%
- 2016/17 1.50%
- 2017/18 2.50%

10.11 There are downside risks to these forecasts (i.e. start of increases in Bank Rate occurs later) if economic growth weakens. However, should the pace of growth quicken, there could be an upside risk.

10.12 The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next three years are as follows:

- 2015/16 0.75%
- 2016/17 1.25%
- 2017/18 1.75%

10.13 **Investment treasury indicator and limit** - total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

10.14 **Investments Longer than a Year:** The Code of Practice requires the Council to giveconsideration to longer-term investment and set an upper limit for principal sums tobe invested for longer than one year. The Council currently has £25m of investments invested for longer than one year.

10.15 Having given due consideration to the level of balances over the next five years, theneed for liquidity, spending commitments and provisions for contingencies, it isdetermined that up to £50 million of total fund balances could be prudently investedfor longer than one year. However, in making such investments, consideration must begiven to the uncertain economic outlook and the prospect for continued marketvolatility in the Eurozone.

10.16 Therefore taking all of the foregoing into consideration, to allow the Council flexibilityto invest in high quality counterparties such, as the UK Government, it isrecommended that the Council set an upper limit for principal sums to be invested for longer than one year at £50 million for 2015/16, £50 million for 2016/17, £50 million for2017/18 £40 million for 2018/19 and £40m for 2019/20.

The Council is asked to approve the treasury indicator and limit: -

Maximum principal sums invested > 364 days			
£m	**2015/16**	**2016/17**	**2017/18**
Principal sums invested > 364 days	£50m	£50m	£50m

10.17 For its cash flow generated balances, the Council will seek to utilise money market funds and short-dated deposits (overnight to100 days),such asits Santander 95 days call account in order to benefit from the compounding of interest.

10.18 **Provision for Credit-related Losses** - If any of the Council's investments appear at risk of loss due to default, provision would need to be made from revenue for the appropriate amount. The Council has no exposure to any banking failure.

11. **BORROWING STRATEGY**

11.1 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

11.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2015/16 treasury operations. The Acting Corporate Director of Resources will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in the anticipated rate to US tapering of asset purchases, or in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

11.3 Any decisions will be reported to the Cabinet and the full Council at the next available opportunity.

11.4 The Council's borrowing strategy will give consideration to new borrowing in the following order of priority: -

- The cheapest borrowing will be internal borrowing by running down cash balances and foregoing interest earned at historically low rates. However, in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing the short term advantage of internal borrowing against potential long term costs if the opportunity is missed for taking loans at long term rates which will be higher in future years.
- Temporary borrowing from the money markets or other local authorities
- PWLB variable rate loans for up to 10 years
- Short dated borrowing from non PWLB below sources
- Long term fixed rate market loans at rates significantly below PWLB rates for the equivalent maturity period (where available) and to maintaining an appropriate balance between PWLB and market debt in the debt portfolio.
- PWLB borrowing for periods under 10 years where rates are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing which will spread debt maturities away from a concentration in longer dated debt

11.5 The Council will continue to borrow in respect of the following:

- Maturing debt (net of minimum revenue provision).
- Approved unsupported (prudential) capital expenditure.
- To finance cash flow in the short term.

11.6 The type, period, rate and timing of new borrowing will be determined by the Acting Director of Corporate Resource under delegated powers, taking into account the following factors:

- Expected movements in interest rates as outlined above.
- Current maturity profile.
- The impact on the medium term financial strategy.
- Prudential indicators and limits.

11.7 **Treasury management limits on borrowing activity** - There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- **Upper limits on variable interest rate exposure**-This identifies a maximum limit for variable interest rates based upon the debt position net of investments
- **Upper limits on fixed interest rate exposure** - This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- **Maturity structure of borrowing**-These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

	2015/16	**2016/17**	**2017/18**
Interest rate exposures			
	Upper %	**Upper %**	**Upper %**
Limits on fixed interest rates based on net debt	100	100	100
Limits on variable interest rates based on net debt	50	50	50
Limits on fixed interest rates:			
• ***Debt only***	*100*	*100*	*100*
• ***Investments only***	*100*	*100*	*100*
Limits on variable interest rates			
• ***Debt only***	*20*	*20*	*20*

• ***Investments only***	*20*	*20*	*20*

Maturity structure of fixed interest rate borrowing 2015/16		
	Lower	**Upper**
Under 12 months	0%	10%
12 months to 2 years	0%	30%
2 years to 5 years	0%	40%
5 years to 10 years	0%	80%
10 years and above	0%	100%

Maturity structure of variable interest rate borrowing 2015/16		
	Lower	**Upper**
Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years and above	0%	100%

11.8 **Policy on borrowing in advance of need** - The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

11.9 Borrowing in advance will be made within the constraints that:

- It will be limited to no more than 75% of the expected increase in borrowing need (CFR) over the three year planning period; and
- Would not look to borrow more than 12 months in advance of need.

11.10 Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual outturn reporting mechanism.

11.11 **Debt rescheduling** - As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

11.12 The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

11.13 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

11.14 All rescheduling will be reported to the Cabinet and Council, at the earliest meeting following its implementation.

12 ANNUAL INVESTMENT STRATEGY

12.1 **Credit Rating Methodology:**The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. More recently, in response to the evolving regulatory regime, the agencies have indicated they may remove these "uplifts". This process may commence during 2015 or 2016. The actual timing of the changes is still subject to discussion, but this does mean immediate changes to the credit methodology are required.

12.2 It is important to stress that the rating agency changes do not reflect any changes in the underlying status of the institution or credit environment, merely the implied level of sovereign support that has been built into ratings through the financial crisis. The eventual removal of implied sovereign support will only take place when the regulatory and economic environments have ensured that financial institutions are much stronger and less prone to failure in a financial crisis.

12.3 Both Fitch and Moody's provide "standalone" credit ratings for financial institutions. For Fitch, it is the Viability Rating, while Moody's has the Financial Strength Rating. Due to the future removal of sovereign support from institution assessments, both agencies have suggested going forward that these will be in line with their respective Long Term ratings. As such, there is no point monitoring both Long Term and these "standalone" ratings.

12.4 Furthermore, Fitch has already begun assessing its Support ratings, with a clear expectation that these will be lowered to 5, which is defined as "A bank for which there is a possibility of external support, but it cannot be relied upon." With all institutions likely to drop to these levels, there is little to no differentiation to be had by assessing Support ratings.

12.5 As a result of these rating agency changes, the credit element of our future methodology will focus solely on the Short and Long Term ratings of an institution. Rating Watch and Outlook information will continue to be assessed where it relates to these categories. This is the same process for Standard & Poor's that the Council has always taken, but a change to the use of Fitch and Moody's ratings. Furthermore, the Council will continue to utilise CDS prices as an overlay to ratings in our new methodology.

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

12.7 in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk.

12.8 Continuing regulatory changes in the banking sector are designed to see greater stability, lower risk and the removal of expectations of Government financial support should an institution fail. This withdrawal of implied sovereign support is anticipated to have an effect on ratings applied to institutions. This will result in the key ratings used to monitor counterparties being the Short Term and Long Term ratings only. Viability, Financial Strength and Support Ratings previously applied will effectively become redundant. This change does not reflect deterioration in the credit environment but rather a change of method in response to regulatory changes.

12.9 As with previous practice, ratings will not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. The Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

12.10 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

12.11 Investment instruments identified for use in the financial year are listed in section 13.9 and 13.10,under the 'specified' and 'non-specified' investments categories.

12.12 In **summary –** considering the factors set out in Paragraphs 10 and 12, therecommended Investment Strategy is that:

I. The cash balances, not immediately required to finance expenditure, are lent to the money market for the most appropriate periods as indicated by the cash flow model and current market and economic conditions;
II. Liquidity is maintained by the use of overnight deposits, MMF and call accounts;
III. The minimum amount of short-term cash balances required to support monthly cash flow management is £75 million;
IV. The upper limit for investments longer than one year is £50 million;
V. The maximum period for longer term lending is 5 years;
VI. All investment with institutions and investment schemes is undertaken in accordance with the Council's creditworthiness criteria as set out at section 13;
VII. More cautious investment criteria are maintained during times of market
VIII. uncertainty;
IX. All investment with institutions and investment schemes is limited to the types of investment set out under the Council's approved "Specified" and "Non-Specified" Investments detailed at section 13, and that professional advice continues to be sought where appropriate;
X. All investment is managed within the Council's approved investment/asset class limits.

13. **Creditworthiness policy**

13.1 The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

13.2 The Acting Corporate Director of Resources will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

13.3 The minimum rating criteria uses the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Council's criteria, the other does not, and the institution will fall outside the lending criteria.

13.4 Credit rating information is supplied by Capita Asset Services, the Council treasury consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. This does not applied to the unrated building societies or banks whereby they are selected based on enhanced credit analysis.

13.5 The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) are:

- Banks with good credit quality – the Council will only use banks which:
    i. are UK banks; and/or
    ii. are non-UK and domiciled in a country which has a minimum sovereign Long Term rating of AAA

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

    i. Short Term –'F1'
    ii. Long Term – 'A'

(N.B. Viability, Financial Strength and Support ratings have been removed and will not be considered in choosing counterparties.)

- Part nationalised UK banks – Lloyds Banking Group and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or they meet the ratings in Bank above.
- The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
- Bank subsidiary and treasury operation - The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
- Unrated/Challengers Banks – The council will use unrated banks with assets in excess of £1.5bn. When investing with such institution, the Council will carry out an enhanced credit analysis in understanding the institution, its financials and credit capabilities.
  - I. The "RAG" framework will be used for Building societies as well as Banks, for the Council to evaluate and compare security and liquidity of investment opportunities.
  - II. The "RAG" (Red, Amber or Green) indicator framework is generally used to identify the strength of a company's financial numbers.
  - III. For example, all the financials there will be pre-set categories which will classify institutions outcomes as Red, Amber or Green. These pre-set categories are industry dependent; e.g. a retail company is expected to generate higher cash flow than a bank.
- Building societies - The Council will *use* all building societies in the UK which:
  - i. Meet the ratings for banks outlined above;
  - ii. Have assets in excess of £1.5bn;

  or meet both criteria.
- Money market funds – AAA
- Enhanced money market funds (EMMFs) – AAA
- Certificates of Deposits
- Corporate Bonds
- Covered Bonds
- UK Government (including gilts, treasury bills and the Debt management Account Deposit Facility, (DMADF))
- Local authorities, parish councils, Police and Fire Authorities
- Supranational institutions

13.6 **The Council is asked to approve the minimum credit rating required for an institution to be included in the Council's counterparty list as follows:**

Agency	Long-Term	Short-Term
Fitch	A	F1
Moody's	A2	P-1
Standard & Poor's	A	A-2
Sovereign Rating	AAA	
Money Market Fund	AAA	

13.7 **Country and Product considerations**- Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part, the country selection will be chosen by the credit rating of the sovereign state in Banks above. In addition:

- no more than aggregate of £75m or 25% of the investments portfolio will be placed with any non-UK country institutions at any time;
- limits in place above will apply to a group of companies;
- Product limits will be monitored regularly for appropriateness.

13.8 **Use of additional information other than credit ratings –** Additional requirements under the Code requires the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information are for example Credit Default Swaps, negative rating watches/outlooks, these will be applied to compare the relative security of differing investment counterparties.

Time and monetary limits applying to investments

13.9 **Specified Investments:**It is recommended that the Council should make Specified investment as detailed below, all such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high credit' quality criteria where applicable. The council will continue its policy of lending surplus cash to counterparties that have high credit ratings, defining 'high credit rating' as being F1+ Fitch short-term and AA- long-term credit rating.

	Fitch Long term Rating (or equivalent)	Money Limit	Time Limit
Term Deposits (Banks - higher quality)	*Short-term F1+, Long-term AA-*	£30m	3yrs
Term Deposits (Banks - medium quality)	*Short-term F1, Long-term A+*	£25m	2yrs
Term Deposits (Banks - lower quality)	*Short-term F1, Long-term A*	£20m	1yr
Banks - part nationalised (per group)	N/A	£70m	1yr
Council's banker (not meeting lending criteria)	XXX	£25m	1 day
DMADF	AAA	unlimited	6 months
Local authorities	N/A	£20m	1yr
Treasury Bills	Long Term AAA	No Limit	1yr
UK Government Gilts	Long Term AAA	No Limit	1yr
Covered Bonds	Long Term AAA	£25m	1yr
Non-UK Government Bonds	Sovereign AAA Long Term AAA	£25m	1yr
Certificates of Deposits	As Term Deposits above	As Term Deposits above	As Term Deposits above
Corporate Bonds	As Term Deposits above	As Term Deposits above	As Term Deposits above
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)			
	Fund rating	**Money Limit (per fund)**	**Time Limit**
Money market funds (Sterling)	AAA	£25m	liquid
Enhanced Cash Funds	AAA/V1	£25m	liquid
Cash Funds	AAA	£25m	liquid
Gilts / Bond Funds	AAA	£25m	liquid

Non-Specified Investments:

13.10 All investments that do not qualify as specified investments are termed non-specified investments. The table below details the total percentage of the Annual Principal Sums Invested for more than364 days that can be held in each category of investment, for example 100% of the Principal Sumslimit can be held with the UK Government at any one time.

13.11 **Unrated banks, building societies and other institutions**are classed as non-specified investments irrespective of the investment period. When investing with this institution, the Council will carry out an enhanced credit analysis in understanding the institution, its financials and credit capabilities.

13.13 The "RAG" (Red, Amber or Green)framework will be used by the Council to evaluate and compare the security and liquidity elements of investment opportunities withbanks as well as building societies.

13.14 The "RAG" indicator framework is generally used to identify the strength of a company's financial numbers. For example, all for the financialsector there will be pre-set categories which will classify institutions outcomes as Red, Amber or Green. These pre-set categories are industry dependent; e.g. a retail company is expected to generate higher cash flow than a bank.

In assessing investment opportunities with unrated UK Banks, Building Societies and other Institutions the Council will look at the following metrics:

Ratio	Red	Amber	Green
Total Debt / Equity	<5	5-10	>10
Net Interest Margin	<0	0-1.5	>1.5
CET1 Ratio	<9	9-13%	>13%
Capital Adequacy Ratio	<0	10-12%	>12%
Total Capital Ratio	<8	8-14%	>14%

Ratio	Red	Amber	Green
Tangible Equity Ratio	<3	3-5	>5
Loan to Deposit Ratio	>110	100-110	<100
Non-performing loan Ratio	>5	2-5	<2
Return on Equity	<0%	0-10%	>10%
Dividend yield	0-8%	8-12%	>12%
P/E Ratio	<0	0-10	>10%

13.15 Whilst the Council look for as many 'greens' as possible, a balance of ratios that indicate long-termsolvency and ability for the institution to service and repay debts is most important.

Minimum Criteria for considering Unrated Institions with money and time limits:

	Institution Capitalisation	Money Limit	Time Limit
Unrated UK Building Societies & Challenger Banks with assets in excess of:	£1.5bn £2.0bn	£3m £5m	6 months 12 months

13.16 It is considered that the maximum percentage of overall investments that the Council should hold for more than 365 days is £50m. (Investments with maturity over a year) The prudential indicator figure of £50m is therefore recommended.

The credit criteria for non-specified investments are detailed in the table below:

Institution	Fitch Long term Rating (or Equivalent)	Time Limit	Monetary Limit
Term deposits – Banks and Building Societies	Short-term F1+, Long-term AA-	3 years	£25m
Structured Deposits: Fixed term deposits with variable rate and variable maturities	Short-term F1+, Long-term AA-	3 years	£25m
Part Nationalised or Wholly Owned UK Banks	N/A	3 years	£25m
Certificates of Deposits	Short-term F1+, Long-term AA-	3 years	£25m
Corporate Bonds	Short-term F1+, Long-term AA-	5 years	£25m
Covered Bonds	Long Term AAA	5 years	£25m
UK Government Gilts and treasury bills	Long Term AAA	5 years	100%of Investment Portfolio

The Council is asked to approved the above criteria for specified and all non-specified investments.

13.16 Country limits - The Council has determined that it will only use approved counterparties from non UK countries with a minimum sovereign credit rating of AAA from Fitch (or equivalent). A counterparty list will be compiled based on this sovereign rating of AAA and in accordance with the Council's minimum credit rating criteria policy for institutions and qualified institutions will be added to this list, and unqualified institions will be removed from the list, by officers asdeemed appropriate. Please see Appendix 3 for qualified countries and their institutions as of 02/01/2015.

14. Service/Policy Investments driven by Members

14.1 The Council proposed to support the borough Credit Union in building its capital reserves in order to be viable to tackle payday providers - Under this scheme the Council has decided to place funds of £40k, with London Community Credit Union for a period of 5 years. This is classified as being a community service investment, rather than a treasury management investment, and is therefore outside of the treasury management strategy.

15 COMMENTS OF THE CHIEF FINANCIAL OFFICER

15.1 The comments of the Acting Corporate Director of Resources are incorporated in the report.

16 LEGAL COMMENTS

16.1 The Local Government Act 2003 provides a framework for the capital finance of local authorities. It provides a power to borrow and imposes a duty on local authorities to determine an affordable borrowing limit. It provides a power to invest. Fundamental to the operation of the scheme is an understanding that authorities will have regard to proper accounting practices recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) in carrying out capital finance functions.

16.2 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require the Council to have regard to the CIPFA publication "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes" ("the Treasury Management Code") in carrying out capital finance functions under the Local Government Act 2003. If after having regard to the Treasury Management Code the Council wished not to follow it, there would need to be some good reason for such deviation.

16.3 It is a key principle of the Treasury Management Code that an authority should put in place "comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities". Treasury management activities cover the management of the Council's investments and cash flows, its banking, money market and capital market transactions, the effective control of risks associated with those activities and the pursuit of optimum performance consistent with those risks. It is consistent with the key principles expressed in the Treasury Management Code for the Council to adopt the strategies and policies proposed in the report.

16.4 The report proposes that the treasury management strategy will incorporate prudential indicators. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 requires the Council to have regard to the CIPFA publication "Prudential Code for Capital Finance in Local Authorities" ("the Prudential Code") when carrying out its duty under the Act to determine an affordable borrowing limit. The Prudential Code specifies a minimum level of prudential indicators required to ensure affordability, sustainability and prudence. The report properly brings forward these matters for determination by the Council. If after having regard to the Prudential Code the Council wished not to follow it, there would need to be some good reason for such deviation.

16.5 The Local Government Act 2000 and regulations made under the Act provide that adoption of a plan or strategy for control of a local authority's borrowing, investments or capital expenditure, or for determining the authority's minimum revenue provision, is a matter that should not be the sole responsibility of the authority's executive and, accordingly, it is appropriate for the Cabinet to agree these matters and for them to then be considered by Full Council.

17 ONE TOWER HAMLETS CONSIDERATIONS

17.1 Capital investment will contribute to achievement of the corporate objectives, including all those relating to equalities and achieving One Tower Hamlets. Establishing the statutory policy statements required facilitates the capital investments and ensures that it is prudent.

18 SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

18.1 There are no sustainable actions for a greener environment implication.

19 RISK MANAGEMENT IMPLICATIONS

19.1 There is inevitably a degree of risk inherent in all treasury activity.

19.2 The Investment Strategy identifies the risk associated with different classes of investment instruments and sets the parameters within which treasury activities can be undertaken and controls and processes appropriate for that risk.

19.3 Treasury operations are undertaken by nominated officers within the parameters prescribed by the Treasury Management Policy Statement as approved by the Council.

19.4 The council is ultimately responsible for risk management in relation to its treasury activities. However, in determining the risk and appropriate controls to put in place the Council has obtained independent advice from Capita Treasury Services who specialise in Council treasury issues.

20 CRIME AND DISORDER REDUCTION IMPLICATIONS

20.1 There are no any crime and disorder reduction implications arising from this report.

21 EFFICIENCY STATEMENT

21.1 The Treasury Management Strategy and Investment Strategy and the arrangements put in place to monitor them should ensure that the Council optimises the use of its monetary resources within the constraints placed on the Council by statute, appropriate management of risk and operational requirements.

APPENDICES

Appendix 1 – Prudential and Treasury Indicators

Appendix 2 – Definition of Credit Ratings

Appendix 3 – Current Counter Party Credit Rating List

Appendix 4 – Treasury Management Policy Statement

Appendix 5 – Treasury Management Scheme of Delegation

Appendix 6 – Treasury Management Reporting Arrangement

Appendix 7 - Glossary

Local Government Act, 1972 Section 100D (As amended)

List of "Background Papers" used in the preparation of this report

Brief description of "background papers"	Name and telephone number of holder and address where open to inspection.
Capital Asset Services TMSS Report Template	*Bola Tobun, x4733, Mulberry Place*
Excerpt from Metro Bank Presentations (January 2015)	

APPENDIX 1

PRUDENTIAL AND TREASURY MANAGEMENT INDICATORS

Prudential Indicators	**2013/14**	**2014/15**	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Extract from Estimate and rent setting reports	**Actual**	**Original Estimate**	**Revised Estimate**	**Estimate**	**Estimate**	**Estimate**
	£m	£m	£m	£m	£m	£m
Capital Expenditure						
Non – HRA	80.113	67.153	67.970	45.678	25.199	14.465
HRA	50.255	99.760	115.622	103.022	70.711	1.594
TOTAL	**130.368**	**166.913**	**183.592**	**148.700**	**95.910**	**16.059**
Ratio of Financing Costs To Net Revenue Stream						
Non – HRA	2.29%	3.51%	2.63%	2.74%	2.92%	3.04%
HRA	3.70%	3.69%	4.01%	4.51%	6.49%	6.53%
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Gross Debt and Capital Financing Requirement						
Gross Debt	129.990	141.060	136.788	154.537	192.522	185.476
Capital Financing Requirement	260.130	317.600	267.727	288.498	329.194	322.199
Over/(Under) Borrowing	(130.140)	(176.540)	(130.939)	(133.961)	(136.672)	(136.723)
In Year Capital Financing Requirement						
Non – HRA	0.000	57.470	7.597	4.790	1.033	(7.779)
HRA	0.000	0.000	0.000	15.980	39.663	0.784
TOTAL	**0.000**	**57.470**	**7.597**	**20.770**	**40.696**	**(6.995)**
Capital Financing Requirement as at 31 March						
Non - HRA	190.455	247.925	198.052	202.842	203.875	196.096
HRA	69.675	69.675	69.675	85.656	125.319	126.103
TOTAL	**260.130**	**317.600**	**267.727**	**288.498**	**329.194**	**322.199**
Incremental Impact of Financing Costs (£)						
Increase in Council Tax (band D) per annum	0.000	0.908	1.325	2.520	2.446	2.375
Increase in average housing rent per week	0.000	0.000	0.821	1..200	3.099	0.060

Treasury Management Indicators	2013/14	2014/15	2014/15	2015/16	2016/17	2017/18
	Actual	Original Estimate	Revised Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m	£m
Authorised Limit For External Debt -						
Borrowing & Other long term liabilities	245.720	308.985	294.287	309.304	347.762	347.199
Headroom	20.000	20.000	20.000	20.000	20.000	20.000
TOTAL	**265.720**	**328.985**	**314.287**	**329.304**	**367.762**	**367.199**
Operational Boundary For External Debt -						
Borrowing	206.310	270.513	255.815	271.796	311.459	312.243
Other long term liabilities	39.410	38.472	38.472	37.508	36.303	34.956
TOTAL	**245.720**	**308.985**	**294.287**	**309.304**	**347.762**	**347.199**
Gross Borrowing	**129.990**	**141.060**	**136.788**	**154.537**	**192.522**	**185.476**
HRA Debt Limit*	**184.381**	**192.000**	**192.000**	**192.000**	**192.000**	**192.000**
Upper Limit For Fixed Interest Rate Exposure						
Net principal re fixed rate borrowing / investments	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Upper Limit For Variable Rate Exposure						
Net interest payable on variable rate borrowing / investments	**20%**	**20%**	**20%**	**20%**	**20%**	**20%**
Upper limit for total principal sums invested for over 364 days (per maturity date)	**£50m**	**£50m**	**£50m**	**£50m**	**£50m**	**£50m**

Maturity structure of new fixed rate borrowing	Upper Limit (2015/16)	Lower Limit (2015/16)
under 12 months	10%	0%
12 months and within 24 mths	30%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	80%	0%
10 years and above	100%	0%

Support Ratings

Rating	
1	A bank for which there is an extremely high probability of external support. The potential provider of support is very highly rated in its own right and has a very high propensity to support the bank in question. This probability of support indicates a minimum Long-term rating floor of 'A-'.
2	A bank for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to provide support to the bank in question. This probability of support indicates a minimum Long-term rating floor of 'BBB-'.
3	A bank for which there is a moderate probability of support because of uncertainties about the ability or propensity of the potential provider of support to do so. This probability of support indicates a minimum Long-term rating floor of 'BB-'.
4	A bank for which there is a limited probability of support because of significant uncertainties about the ability or propensity of any possible provider of support to do so. This probability of support indicates a minimum Long-term rating floor of 'B'.
5	A bank for which external support, although possible, cannot be relied upon. This may be due to a lack of propensity to provide support or to very weak financial ability to do so. This probability of support indicates a Long-term rating floor no higher than 'B-' and in many cases no floor at all.

Short-term Ratings

Rating	
F1	**Highest credit quality.** Indicates the strongest capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.
F2	**Good credit quality.** A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.
F3	**Fair credit quality.** The capacity for timely payment of financial commitments is adequate; however, near-term adverse changes could result in a reduction to non-investment grade.

Long -term Ratings

Rating	Current Definition (August 2003)
AAA	**Highest credit quality.** 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
AA	**Very high credit quality.** 'AA' ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A	**High credit quality.** 'A' ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.
BBB	**Good credit quality.** 'BBB' ratings indicate that there is currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions is more likely to impair this capacity. This is the lowest investment-grade category.

Appendix 3

COUNTER PARTY CREDIT RATING LIST as at 02/01/2015

	Fitch Rating				Moody's Ratings			S&P Ratings	
INSTITUTION/COUNTRY	Long Term	Short Term	Viability	Support	Long Term	Short Term	FSR	Long Term	Short Term
Australia	AAA	-	-	-	Aaa	-	-	AAA	-
Australia and New Zealand Banking Group Ltd	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+
Commonwealth Bank of Australia	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+
Macquarie Bank Limited	A	F1	a	3	A2	P-1	C-	A	A-1
National Australia Bank Ltd	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+
Westpac Banking Corporation	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+
Canada	AAA	-	-	-	Aaa	-	-	AAA	-
Bank of Montreal	AA-	F1+	aa-	1	Aa3	P-1	C+	A+	A-1
Bank of Nova Scotia	AA-	F1+	aa-	1	Aa2	P-1	B-	A+	A-1
Canadian Imperial Bank of Commerce	AA-	F1+	aa-	1	Aa3	P-1	C+	A+	A-1
National Bank of Canada	A+	F1	a+	1	Aa3	P-1	C	A	A-1
Royal Bank of Canada	AA	F1+	aa	1	Aa3	P-1	C+	AA-	A-1+
Toronto Dominion Bank	AA-	F1+	aa-	1	Aa1	P-1	B	AA-	A-1+
Denmark	AAA	-	-	-	Aaa	-	-	AAA	-
Danske Bank	A	F1	a	1	A3	P-2	C-	A	A-1
Finland	AAA	-	-	-	Aaa	-	-	AA+	-
Nordea Bank Finland plc ~	AA-	F1+	aa-	1	Aa3	P-1	C	AA-	A-1+
Pohjola Bank	A+	F1	-	1	Aa3	P-1	C-	AA-	A-1+
Germany	AAA	-	-	-	Aaa	-	-	AAA	-
BayernLB	A+	F1+	bb+	1	A3	P-2	D	-	-
Commerzbank AG	A+	F1+	bbb	1	Baa1	P-2	D+	A-	A-2
Deutsche Bank AG	A+	F1+	a	1	A3	P-2	D+	A	A-1
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	A+	F1+	-	1	A1	P-1	C-	AA-	A-1+

INSTITUTION/COUNTRY	Long Term	Short Term	Viability	Support	Long Term	Short Term	FSR	Long Term	Short Term
Landesbank Baden Wuerttemberg	A+	F1+	bbb	1	A2	P-1	D+	-	-
Landesbank Berlin AG	-	-	-	-	A1	P-1	D+	-	-
Landesbank Hessen-Thueringen Girozentrale (Helaba)	A+	F1+	-	1	A2	P-1	D+	A	A-1
Landwirtschaftliche Rentenbank	AAA	F1+	-	1	Aaa	P-1	-	AAA	A-1+
Norddeutsche Landesbank Girozentrale	A	F1	bbb-	1	A3	P-2	D	BBB+	A-2
NRW.BANK	AAA	F1+	-	1	Aa1	P-1	-	AA-	A-1+
UniCredit Bank AG (Suspended)	A+	F1+	a-	1	Baa1	P-2	D+	A-	A-2
Luxembourg	AAA	-	-	-	Aaa	-	-	AAA	-
Banque et Caisse d'Epargne de l'Etat	-	-	-	-	Aa1	P-1	C	AA+	A-1+
Clearstream Banking	AA	F1+	aa	1	-	-	-	AA	A-1+
Netherlands	AAA	-	-	-	Aaa	-	-	AA+	-
Bank Nederlandse Gemeenten	AAA	F1+	-	1	Aaa	P-1	B-	AA+	A-1+
Cooperatieve Centrale Raiffeisen Boerenleenbank BA (Rabobank Nederland)	AA-	F1+	-	1	Aa2	P-1	B-	A+	A-1
ING Bank NV	A+	F1+	a	1	A2	P-1	C-	A	A-1
Nederlandse Waterschapsbank N.V	-	-	-	-	Aaa	P-1	C+	AA+	A-1+
Norway	AAA	-	-	-	Aaa	-	-	AAA	-
DnB Bank	-	-	-	-	A1	P-1	C-	A+	A-1
Singapore	AAA	-	-	-	Aaa	-	-	AAA	-
DBS Bank Ltd	AA-	F1+	aa-	1	Aa1	P-1	B	AA-	A-1+
Oversea Chinese Banking Corporation Ltd	AA-	F1+	aa-	1	Aa1	P-1	B	AA-	A-1+
United Overseas Bank Ltd	AA-	F1+	aa-	1	Aa1	P-1	B	AA-	A-1+
Sweden	AAA	-	-	-	Aaa	-	-	AAA	-
Nordea Bank AB	AA-	F1+	aa-	1	Aa3	P-1	C	AA-	A-1+
Skandinaviska Enskilda Banken AB	A+	F1	a+	1	A1	P-1	C-	A+	A-1
Swedbank AB	A+	F1	a+	1	A1	P-1	C-	A+	A-1
Svenska Handelsbanken AB	AA-	F1+	aa-	1	Aa3	P-1	C	AA-	A-1+
Switzerland	AAA	-	-	-	Aaa	-	-	AAA	-

INSTITUTION/COUNTRY	Long Term	Short Term	Viability	Support	Long Term	Short Term	FSR	Long Term	Short Term
Credit Suisse AG	A	F1	a	1	A1	P-1	C-	A	A-1
UBS AG	A	F1	a	1	A2	P-1	C-	A	A-1
U.S.A	AAA	-	-	-	Aaa	-	-	AA+	-
Bank of America, N.A.	A	F1	a-	1	A2	P-1	C-	A	A-1
Bank of New York Mellon, The	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+
BOKF, NA	A	F1	a	5	A1	P-1	B-	A	A-1
Citibank, N.A.	A	F1	a	1	A2	P-1	C-	A	A-1
HSBC Bank USA, N.A.	AA-	F1+	a-	1	A1	P-1	C-	AA-	A-1+
JPMorgan Chase Bank NA	A+	F1	a+	1	Aa3	P-1	C	A+	A-1
Northern Trust Company	AA-	F1+	aa-	5	A1	P-1	B-	AA-	A-1+
Silicon Valley Bank	-	-	-	-	A2	P-1	C+	BBB+	-
State Street Bank and Trust Company	AA-	F1+	aa-	1	Aa3	P-1	B-	AA-	A-1+
U.S. Bancorp	AA-	F1+	aa-	5	A1	P-1	-	A+	A-1
Wells Fargo Bank NA	AA-	F1+	aa-	1	Aa3	P-1	C+	AA-	A-1+
U.K	AA+	-	-	-	Aa1	-	-	AAA	-
Abbey National Treasury Services plc	A	F1	-	-	A2	P-1	-	-	-
Bank of New York Mellon (International) Ltd	AA-	F1+	-	1	-	-	-	-	-
Barclays Bank plc	A	F1	a	1	A2	P-1	C-	A	A-1
Cater Allen	-	-	-	-	-	-	-	-	-
Citibank International Plc	A	F1	-	1	A2	P-1	C-	A	A-1
Close Brothers Ltd	A	F1	a	5	A3	P-2	C	-	-
Clydesdale Bank	A	F1	bbb+	1	Baa2	P-2	D+	BBB+	A-2
Co-operative Bank Plc	B	B	b	5	Caa2	NP	E	-	-
Credit Suisse International	A	F1	-	1	A1	P-1	-	A	A-1
Goldman Sachs International	A	F1	-	-	A2	P-1	-	A	A-1
Goldman Sachs International Bank	A	F1	-	-	A2	P-1	D+	A	A-1
HSBC Bank plc	AA-	F1+	a+	1	Aa3	P-1	C	AA-	A-1+
MBNA Europe Bank	A-	F1	-	1	-	-	-	-	-
Merrill Lynch International	A	F1	-	1	-	-	-	A	A-1
Morgan Stanley & Co. International plc	-	-	-	-	A3	P-2	-	A	A-1
Santander UK plc	A	F1	a	1	A2	P-1	C-	A	A-1

INSTITUTION / COUNTRY	Long Term	Short Term	Viability	Support	Long Term	Short Term	FSR	Long Term	Short Term
Standard Chartered Bank	AA-	F1+	aa-	1	A1	P-1	B-	A+	A-1
Sumitomo Mitsui Banking Corporation Europe Ltd	A-	F1	-	1	A1	P-1	C	A+	A-1
UBS Ltd	A	F1	-	1	A2	P-1	-	A	A-1
Coventry BS	A	F1	a	5	A3	P-2	C	-	-
Leeds BS	A-	F1	a-	5	A3	P-2	C	-	-
Nationwide BS	A	F1	a	1	A2	P-1	C	A	A-1
Newcastle BS	BB+	B	bb+	5	-	-	-	-	-
Nottingham BS	-	-	-	-	Baa2	P-2	C-	-	-
Principality BS	BBB+	F2	bbb+	5	Baa3	P-3	D+	-	-
Skipton BS	BBB	F2	bbb	5	Baa3	P-3	D+	-	-
West Bromwich BS	-	-	-	-	B2	NP	E+	-	-
Yorkshire BS	A-	F1	a-	5	Baa1	P-2	C-	-	-
AAA rated and Government backed securities	-	-	-	-	-	-	-	-	-
Collateralised LA Deposit*	AA+	-	-	-	Aa1	-	-	AAA	-
Debt Management Office	AA+	-	-	-	Aa1	-	-	AAA	-
Supranationals	AAA	-	-	-	Aaa	-	-	AAA	-
UK Gilts	AA+	-	-	-	Aa1	-	-	AAA	-
Lloyds Banking Group plc	A	F1	a-	1	A2	-	-	A-	A-2
Bank of Scotland Plc	A	F1	a-	1	A1	P-1	C-	A	A-1
Lloyds Bank Plc	A	F1	a-	1	A1	P-1	C-	A	A-1
Royal Bank of Scotland Group plc	A	F1	bbb	1	Baa2	P-2	-	BBB+	A-2
National Westminster Bank Plc	A	F1	bbb	1	Baa1	P-2	D+	A-	A-2
The Royal Bank of Scotland Plc	A	F1	bbb	1	Baa1	P-2	D+	A-	A-2
Ulster Bank Ltd (Suspended)	A-	F1	ccc	1	Baa3	P-3	E+	BBB+	A-2

Appendix 4

Treasury Management Policy Statement

The London Borough of Tower Hamlets defines the policies and objectives of its treasury management activities as follows: -

1. This organisation defines its treasury management activities as:

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

2. This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

3. This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management."

Policy on use of an External Treasury Advisor

The Council shall employ an external treasury advisor to provide treasury management advice and cash management support services. However, the Council shall control the credit criteria and the associated counter-party list for investments.

The Council recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

Appendix 5

Treasury Management Scheme of Delegation

1. Full Council / Cabinet

- receiving and reviewing reports on treasury management policies. practices and activities
- receiving the mid-year and annual (outturn) reports
- approval of annual strategy.

2. Cabinet /Section 151 Officer

- approval of/amendments to the organisation's adopted clauses and treasury management policy statement
- budget consideration and approval
- approval of the division of responsibilities
- approving the selection of external service providers and agreeing terms of appointment.

3. Audit Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.
- receiving and reviewing regular monitoring reports and acting on recommendations

Appendix 6

Treasury Management Reporting Arrangement

Area of Responsibility	Council/Committee/ Officer	Frequency
Treasury Management Strategy Statement/ Annual Investment Strategy/ Minimum Revenue Provision Policy	Full Council	Annually before the start of the financial year to which policies relate
Mid-Year Treasury Management Report	Full Council	Semi-Annually in the financial year to which policies relate
Updates or revisions to the Treasury Management Strategy Statement/ Annual Investment Strategy/ Minimum Revenue Provision Policy	Audit Committee or Full Council	As necessary
Annual Treasury Outturn Report	Audit Committee and Full Council	Annually by 30 September after the year end to which the report relates
Treasury Management Practices	Corporate Director-Resources	N/A
Scrutiny of Treasury Management Strategy Statement	Overview and Scrutiny Committee (if called in) / Audit Committee	Annually before the start of the financial year to which the report relates
Scrutiny of Treasury Management Performance	Audit Committee	Quarterly

Appendix 7

GLOSSARY

Asset Life	How long an asset, e.g. a Council building is likely to last.
Borrowing Portfolio	A list of loans held by the Council.
Borrowing Requirements	The principal amount the Council requires toborrow to finance capital expenditure and loan redemptions.
Capitalisation direction or regulations	Approval from central government to fund certain specified types of revenue expenditure from capital resources.
CIPFA Code of Practice on TreasuryManagement	A professional code of Practice which regulates treasury management activities.
Capital Financing Requirement (CFR)	Capital Financing Requirement- a measure of the Council's underlying need to borrow to fund capital expenditure.
Certificates of Deposits	A certificate of deposit (CD) is a time deposit, a financial product. CDs are similar to savings accounts in that they are insured and thus virtually risk free; they are "money in the bank." They are different from savings accounts in that the CD has a specific, fixed term (often monthly, three months, six months, or one to five years) and, usually, a fixed interest rate. It is intended that the CD be held until maturity, at which time the money may be withdrawn together with the accrued interest.
Commercial paper	Commercial paper is a money-market security issued (sold) by large corporations to obtain funds to meet short-term debt obligations (for example, payroll), and is backed only by an issuing bank or corporation's promise to pay the face amount on the maturity date specified on the note. Since it is not backed by collateral, only firms with excellent credit ratings from a recognized credit rating agency will be able to sell their commercial paper at a reasonable price. Commercial paper is usually sold at a discount from face value, and carries higher interest repayment rates than bonds
Counterparties	Organisations or Institutions the Council lends money to e.g. Banks; Local Authorities and MMF.
Corporate bonds	A corporate bond is a bond issued by a corporation. It is a bond that a corporation issues to raise money effectively in order to expand its business. The term is usually applied to longer-term debt instruments, generally with a maturity date falling at least a year after their issue date.
Covered bonds	A covered bond is a corporate bond with one important enhancement: recourse to a pool of assets that secures or "covers" the bond if the originator (usually a financial institution) becomes insolvent. These assets act as additional credit cover; they do not have any bearing on

	the contractual cash flow to the investor, as is the case with Securitized assets.
Consumer Prices Index & Retail Prices Index (CPI & RPI)	The main inflation rate used in the UK is the CPI. The Chancellor of the Exchequer bases the UK inflation target on the CPI. The CPI inflation target is set at 2%. The CPI differs from the RPI in that CPI excludes housing costs. Also used is RPIX, which is a variation of RPI, one that removes mortgage interest payments.
Credit Default Swap (CDS)	A kind of protection that can be purchased by MMF companies from insurance companies (for their investment) in exchange for a payoff if the organisation they have invested in does not repay the loan i.e. they default.
Credit watch	Variety of special programs offered by credit rating agencies and financial institutions to monitor organisation/individual's (e.g. bank) credit report for any credit related changes. A credit watch allows the organisation/individuals to act on any red flags before they can have a detrimental effect on credit score/history.
Credit Arrangements	Methods of Financing such as finance leasing
Credit Ratings	A scoring system issued by credit ratingagencies such as Fitch, Moody's and Standard& Poors that indicate the financial strengthand other factors of a bank or similar institution.
Creditworthiness	How highly rated an institution is according to its credit rating.
Debt Management Office (DMO)	The DMO is an agency of the HM Treasury which is responsible for carrying out the Government's Debt Management Policy.
Debt Rescheduling	The refinancing of loans at different terms and rates to the original loan.
Depreciation Method	The spread of the cost of an asset over its useful life.
Gilt	Gilt-edged securities are bonds issued by certain national governments. The term is of British origin, and originally referred to the debt securities issued by the Bank of England, which had a gilt (or gilded) edge. Hence, they are known as gilt-edged securities, or gilts for short. Today the term is used in the United Kingdom as well as some Commonwealth nations, such as South Africa and India. However, when reference is made to "gilts", what is generally meant is "UK gilts," unless otherwise specified.
Interest Rate exposures	A measure of the proportion of money invested and what impact movements in the financial markets would have on them.
The International Monetary Fund (IMF)	is an intergovernmental organisation which states its aims as to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

Impaired investment	An investment that has had a reduction in value to reflect changes that could impact significantly on the benefits expected from it.
LIBID	The London Interbank Bid Rate – it is the interest rate at which major banks in London are willing to borrow (bid for) funds from each other.
Market Loans	Loans from banks available from the London Money Market including LOBOS (Lender Option, Borrowing Option) which enable the authority to take advantage of low fixed interest for a number of years before an agreed variable rate comes into force.
Money Market Fund (MMF)	A 'pool' of different types of investments managed by a fund manager that invests in lightly liquid short term financial instruments with high credit rating.
Monetary Policy Committee (MPC)	Committee designated by the Bank of England, whose main role is to regulate interest rates.
Minimum Revenue Provision (MRP)	This is the amount which must be set aside from the revenue budget each year to cover future repayment of loans.
Non Specified Investments	Investments deemed to have a greater element of risk such as investments for longer than one year
Premium	Cost of early repayment of loan to PWLB to compensate for any losses that they may incur
Prudential Indicators	Set of rules providing local authorities borrowing for funding capital projects under a professional code of practice developed by CIPFA and providing measures of affordability and prudence reflecting the Council's Capital Expenditure, Debt and Treasury Management.
PWLB	Public Works Loan Board, a statutory body whose function is to lend money to Local Authorities (LAs) and other prescribed bodies. The PWLB normally are the cheapest source of long term borrowing for LAs.
Specified Investments	Investments that meet the Council's high credit quality criteria and repayable within 12 months.
Supranational bonds	Supranational bonds are issued by institutions that represent a number of countries, not just one. Thus, organisations that issue such bonds tend to be the World Bank or the European Investment Bank. The issuance of these bonds are for the purpose of promoting economic development
Treasury bills (or T-bills)	Treasury bills (or T-bills) mature in one year or less. Like zero-coupon bonds, they do not pay interest prior to maturity; instead they are sold at a discount of the par value to create a positive yield to maturity. Many regard Treasury bills as the least risky investment available.
Unrated institution	An institution that does not possess a credit rating from one of the main credit rating agencies.
Unsupported Borrowing	Borrowing where costs are wholly financed by the

	Council.

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Report To:	Date	Classification	Report No.	Agenda Item No.
Audit Committee	**4 February 2015**	**Unrestricted**		
REPORT OF: **Chris Holme, Acting Corporate Director of Resources** ORIGINATING OFFICER(S): **Bola Tobun, Investment & Treasury Manager**	**Treasury Management Activity for Period Ending 31 October 2014** WARD(S) AFFECTED: N/A			

Lead Member	**Cllr Alibor Choudhury – Resources**
Community Plan Theme	**All**
Strategic Priority	**One Tower Hamlets**

1. SUMMARY

1.1 This report advises the Committee of treasury management activity for the current financial year up to 31 October 2014 and the continued appropriateness of the Treasury Management Strategy and Treasury Prudential Indicators, which were approved by Council on 26 February 2014 as required by the Local Government Act 2003.

1.2 The report details the current credit criteria adopted by the Acting Corporate Director of Resources, the investment strategy for the current financial year and the projected investment returns.

1.3 The current average return on investment stands at 0.72%, compared with budget set of 0.80%, whilst the budgeted cash return on assets was £1.6m for 2014/15; this has been revised to £2.7m due to large cash balances.

1.4 In accordance with regulatory requirements the Council has approved Prudential Indicators for Treasury Management. Treasury activities have not resulted in any breach of the approved limits. A Mid-Year review of the Treasury Management Strategy was presented to Council at its meeting of the 26 November 2014 to approved modification to the investment policy.

2. DECISIONS REQUIRED

2.1 Members are recommended to:

- note the contents of the treasury management activity report for period ending 31 October 2014.

3 REASONS FOR DECISIONS

3.1 Legislation requires that regular reports be submitted to Council/Committee detailing the council's treasury management activities.

3.2 The regular reporting of treasury management activities should assist in ensuring that Members are able to scrutinise officer decisions and monitor progress on the implementation of the investment strategy as approved by Full Council.

4 ALTERNATIVE OPTIONS

4.1 The Council is bound by legislation to have regard to the Treasury Management (TM) Code. The Code requires that the Council or a sub-committee of the Council (Audit Committee) should receive regular monitoring reports on treasury management activities.

4.2 If the Council were to deviate from those requirements, there would need to be some good reason for doing so. It is not considered that there is any such reason, having regard to the need to ensure that Members are kept informed about treasury management activities and to ensure that these activities are in line with the investment strategy approved by the Council.

4.3 Within reason, the Council can vary its treasury management strategy having regard to its own views about its appetite for risk in relation to the financial returns required.

5 BACKGROUND

5.1 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require local authorities to have regard to the Treasury Management Code. The Treasury Management code requires that the Council or a sub-committee of the Council (Audit Committee) should receive regular monitoring reports on treasury management activities and risks.

5.2 These reports are in addition to the mid-year and annual treasury management activity reports that should be presented to Council midway through the financial year and at year end respectively.

5.3 This report details the current credit criteria/risk level adopted by the Corporate Director of Resources, the investment strategy for the current financial year and the projected investment returns.

6. TREASURY MANAGEMENT STRATEGY 2014/15

6.1 The Council's Treasury Management Strategy was approved on 26 February 2014 by Full Council. The Strategy comprehensively outlines how the treasury function is to operate over the financial year 2014-15 and it covers the following:

- Treasury limits in force which will limit the treasury risk and activities of the Council;
- Prudential and Treasury Indicators;
- The current treasury position;
- Prospects for interest rates;
- The borrowing strategy (including policy on borrowing in advance of need);
- Debt Rescheduling;
- The Investment Strategy;
- Credit Worthiness Policy'
- Policy on use of external service providers; and
- The Minimum Revenue Provision (MRP) Strategy

7. TREASURY ACTIVITY FOR PERIOD 1 April to 31 October 2014

7.1 This section of the report gives an update on the market and sets out:
- The current credit criteria being operated by the Council.
- The treasury investment strategy for the current financial year and the progress in implementing this.
- The transactions undertaken in the period and the investment portfolio outstanding as at 31 October 2014.

8 MARKET UPDATE (October 2014)

8.1 The economic outlook for the UK and US has improved, but for the Eurozone the future remains tepid at best, in spite of the recent ECB policy action. Eurozone progress will continue to be hampered by a number of fundamental issues, not least stubbornly high unemployment, in all bar one or two countries in the bloc. While the overall economy is more robust than it was in 2011, a renewal of problems within the periphery and/or elsewhere may still weigh on market sentiment in 2014.

8.2 Central bank activity continues to dominate underlying sentiment and will likely remain at the forefront in driving market confidence for some time to come. Recent market activity is another clear sign of attempts to adjust to a life beyond ultra-supportive monetary policy in the UK and US. Other recent examples have included a series of comments from Bank Governor Mark Carney and the minutes of the last three MPC meetings showing two members voting for an immediate rate hike. These have led to increased volatility in short dated money market and bond yields, as well as currency and equity markets. The signs of cooling seen in recent UK data releases would suggest that momentum in the recovery is easing, without the need for policy increases. As such, analysts have continued to push back their expectations of the first hike until at least the second quarter of 2015.

8.3 The US Federal Reserve concluded its tapering programme at the October meeting. Although the mid-month market volatility had suggested that the move could be postponed, the central bank was comforted that the economy continues to grow at a "…moderate pace". Although the accompanying statement continued to state that rates would remain unchanged for a "…considerable time" its overall tone was seen as more hawkish than expected. This was also reflected in the fact that previous "hawks" agreed with the wording, but one member voted against, highlighting suggestions that the weak inflation outlook warranted a longer time scale until rates were raised. The updated view has seen a reversal of a previous shift in forecasts towards the first move occurring in the second half of next year.

8.4 Closer to home, some commentators have cried foul at Bank of England Governor, Mark Carney, again. Just a few days after the release of a dovish Inflation Report (August), where the weakness of average earnings was suggested to hold back policy tightening, he commented in a newspaper interview that rates could yet rise, even if there is no material improvement in wages. However, he did qualify the statement by saying that there would need to be confidence that wages were going to sustainably improve, before a rate rise could be considered. Nevertheless, for a central banker who continues to place most emphasis on the long game (ie focus on where rates may head over the medium term, not when any tightening begins) his performance over the last few months has caused some consternation in markets. Perhaps, in hindsight, his most recent comments were aimed at dampening the market reaction to the two votes for an immediate rate hike at recent meetings.

8.5 For some forecasters the “No” Scottish vote did not just remove uncertainty from the timing of the initial rate rise, but also the medium term outlook. If the Union had been broken up, it would likely have had a material impact on UK plc, and thus the medium term outlook for interest rates. Nevertheless, with a General Election in May, the potential for an EU referendum thereafter and prospective changes to the political landscape in the UK, politics is likely to remain an uncertain factor for a while yet.

8.6 Through the start of 2014, emerging markets issues and more recently, geo-political concerns, have also had a major bearing on market sentiment. While the global recovery may continue, the outlook is by no means certain and markets are likely to be hit with further bouts of volatility through the remainder of the year and beyond.

8.7 Most forecasters now expect the MPC to begin raising rates in the first half of 2015 as the date when the MPC will begin raising rates. However, fine tuning of this will require a clear series of data releases, especially regarding the removal of slack in the labour market. The actions/words, or inactions, of central bankers are likely to continue to be the key themes dominating market sentiment in the coming months. They have undertaken enormous support programmes in recent years, in an effort to stabilise the world economy. However, can they be unwound without causing material market turbulence in the future? The US has started to minimise the levels of increased support through its recently-concluded tapering programme, but the full unwinding of policy support may take many years to accomplish.

8.8 Counterparty quality remains the key factor when making investment decisions. Policy rates will tighten at some stage, and this has called into question the benefits of some of the longer dated deals on offer. However, there are still some attractive rates, if the future path of rate rises is measured, as the Bank continually suggests.

9 CREDIT CRITERIA

9.1 The credit criteria for investment counterparties were amended and reported for approval to the Council in November 2014 as part of the Mid-Year review of the Treasury Management Strategy. The Council will continue to invest within the UK and its Government regardless of the country’s sovereign rating. Explanation of credit ratings criteria is attached at Appendix approve the changes to the minimum credit rating criteria; that is the removal of viability or financial strength rating and support ratings as set out in section 10 and table 1 of Appendix 3;

9.2 The Council has been advised by the treasury adviser that rating assumptions are to be updated by the three main rating agencies in order to remove the implied sovereign support embedded in the creditworthiness of an institution. The agencies are primarily reacting to the European regulatory changes which aim at ensuring the resolvability of banks without government support (e.g., resolution regimes and recovery and resolution plans).

9.3 One of the main objectives of these revisions has been to increase transparency relating to the impact of external factors on banks’ creditworthiness, such as the probability that they will receive support if they encounter difficulty. Massive government interventions during the banking crisis have indeed confirmed that government support can lower the probability that a bank will default. More recently, in the European countries at the centre of the sovereign debt tensions, the link between major banks’ creditworthiness and the perceived problems of their respective sovereign has also been evident. These regulations are due to come into effect January 2016.

9.4 The rating changes could happen before this date, as a matter of fact Fitch rating agency has reassessed their overall methodology and Capita, the Council's treasury adviser has stopped using Financial Strength Rating (FSR) and Support Ratings in computing credit worthiness of institutions. Hence we asked the Council to approved modifications the Council's basis of formulating counter party template by removing the Viability or Financial Strength Rating (FSR) and Support Rating from the template. As going forward the Financial Strength Rating (FSR) and Support Ratings will, essentially, become irrelevant.

9.5 Another key issue that faces the efficient and effective management of the Council's cash portfolio currently was that of counterparty availability. The Councils have deposit of £140m outstanding with the part nationalised banking groups and the challenge ahead will be to address the decline in the Government holding in Lloyds Banking Group and the impact that this could have on the counterparty limit that the Council currently applies to this entity.

9.6 In addressing this issue, a reduction in the nominal and duration limits has been applied to Lloyds Banking Group. The Council is struggling at the moment to place deposit with institutions as there are not many out there that meets the Council current minimum credit rating criteria. However there are some institutions that meet the Council's minimum credit criteria but offering other financial products that are not included in the Council's Investment Strategy based on the advice of the Council's treasury adviser, we asked for the Council approval to introduce new investments products as this will help with liquidity and diversification issue.

9.7 In light of the above points, approval was sought at the Council's meeting in November 2014 for the Council's Investment Policy to be modified as follows:

- *The adoption of credit rating criteria as shown at table 1 of Appendix 1 as the minimum credit rating required for an institution to be included in the Council's counterparty list.*
- *Inclusion of other financial instruments such as Certificates of Deposits, Treasury Bills, Commercial Papers and Corporate Bonds in line with the Council's credit worthiness criteria, as shown in Appendix 1; table 2 & 3; and*
- *Increase of prudential indicator limit for investments over one year but no more than three years to £50million from £25million.*

10 <u>INVESTMENT STRATEGY</u>

10.1 Capita provides cash management services to the Council, but the Council retains control of the credit criteria and the investments, so Capita's role is purely advisory.

10.2 In addition to providing cash management services, Capita also provides treasury consultancy/advisory service to the Council.

10.3 The outlook for interest rates indicates a growing belief that central banks are keen to keep rates low for a prolonged period, to encourage global growth. Forecasters are moving the date of the first projected interest rate increase in the UK forward, potentially into Q2 2015. If and when rates do start to rise, the authority will wish to be in a position to take advantage by not having too much money invested in longer term investments.

10.4 The current balance of £297.8m is £97.8m higher than the projected average cash balance of £200m. This is mainly attributable to slippage on the capital programme. It is envisaged that cash balances will reduce in the medium term as expenditure on the capital programme picks up through the remainder of the financial year.

10.5 At the end of October, the Council has £42.8m of outstanding investments of £297.8m as overnight money and £75m maturing within 3 months, £115m maturing within 3-6 months, £45m maturing within 6-9 months, no investments maturing within 9-12 months and £20m to mature after 12months.

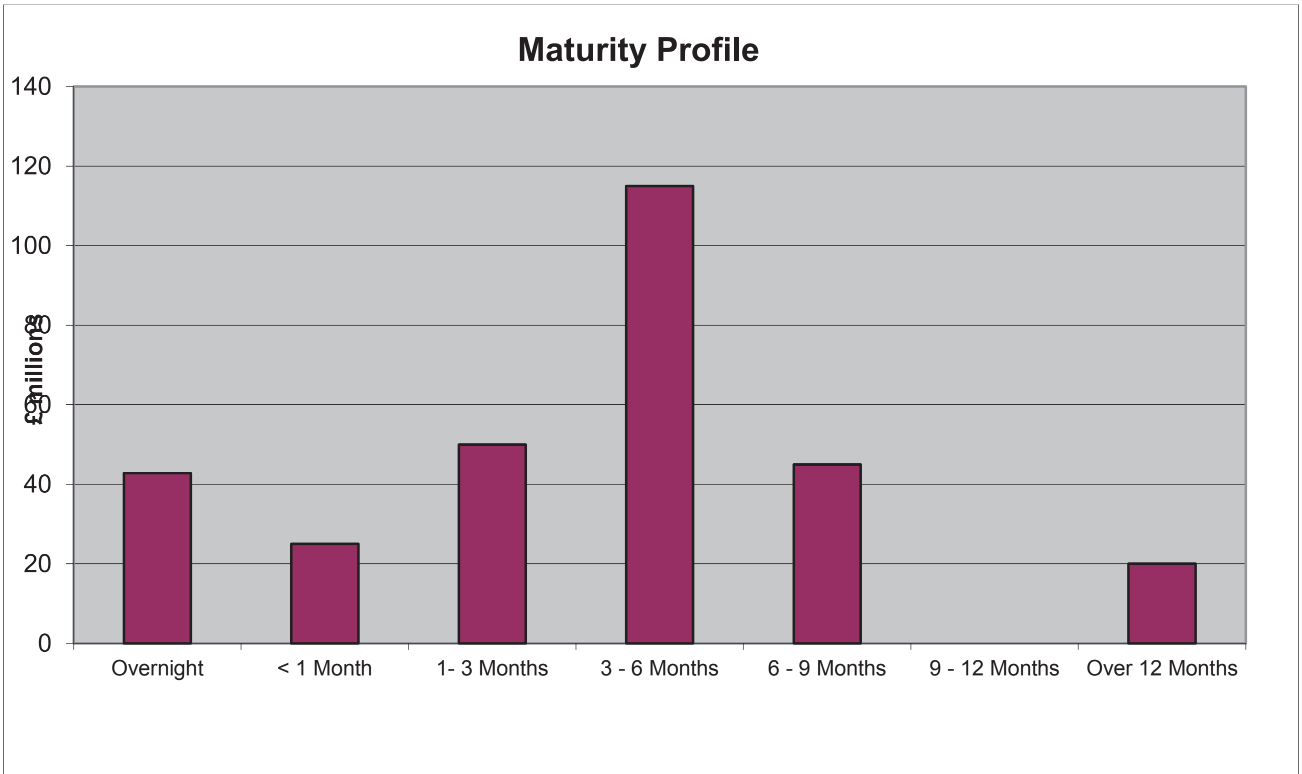
10.6 The budgeted investment return for 2014/15 was £1.6m. This target has been achieved due to large cash balances the Council has been working with; this balance has been well above the estimated budget balance of £200m. The investment return has now been revised to £2.7m with average cash balance of £325m for 2014/2015.

10.7 In response to the comments from the last meeting, the Council treasury officers investigated the issue of Lloyds paying 6% for a thirty day investment … even in the retail market, the Council's treasury adviser has been unable to confirm this. Their three year bond issue is only paying 1.70%. Their business 30 days' notice account is actually paying just 0.05%.

10.8 For 2014/15 strategy, there are institutions the Council cannot place deposits with as they are unrated institutions or institutions below the Council's minimum lending criteria. For 2015/16 Treasury management strategy the Council's treasury officers are looking for investment opportunities but have regard to security and liquidity before embracing yield.

10.9 Current investment portfolio is as set out below.

Investment Portfolio at 31 October 2014

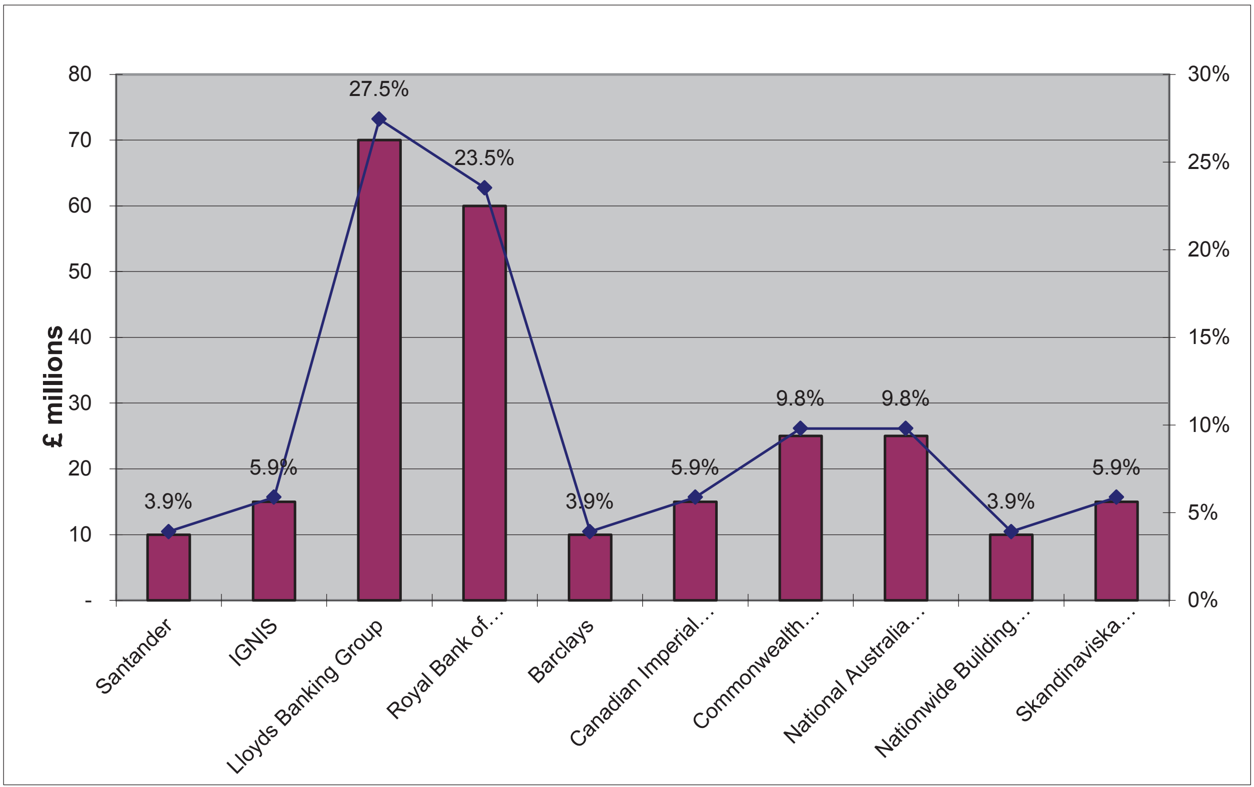


10.10 The Weighted Average Maturity for outstanding investment portfolio is 156 days. This is the average number of outstanding days to maturity of each deal from 31st October 2014.

10.11 The Council's exposure to any one counterparty/Group is represented by the chart below including exposure as a percentage of total assets invested as at 31 October 2014.

10.12 The chart below shows the deposits outstanding with authorised counterparties as at 31 October 2014, of which 51% were with part-nationalised banks (Lloyds and RBS Groups).

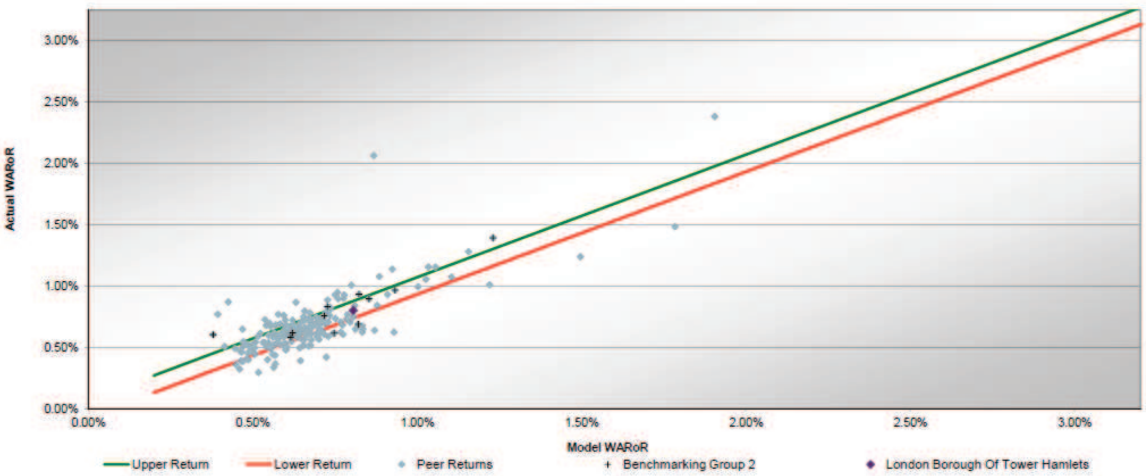
Maturity of Investment Portfolio as at 31 October 2014



11 INVESTMENT BENCHMARKING CLUB

11.1 LBTH participates in a benchmarking club to enable officers to compare the Council's treasury management /investment returns against those of similar authorities. The model below shows the performance of benchmark club members given the various levels of risks taken as at 30 September 2014. The model takes into account a combination of credit, duration and returns achieved over the duration, and it includes data from 20 local authorities. Tower Hamlets lies close to the expected return given the council's portfolio risk profile, which is placing deposits with institutions with the sovereign rate of AAA.

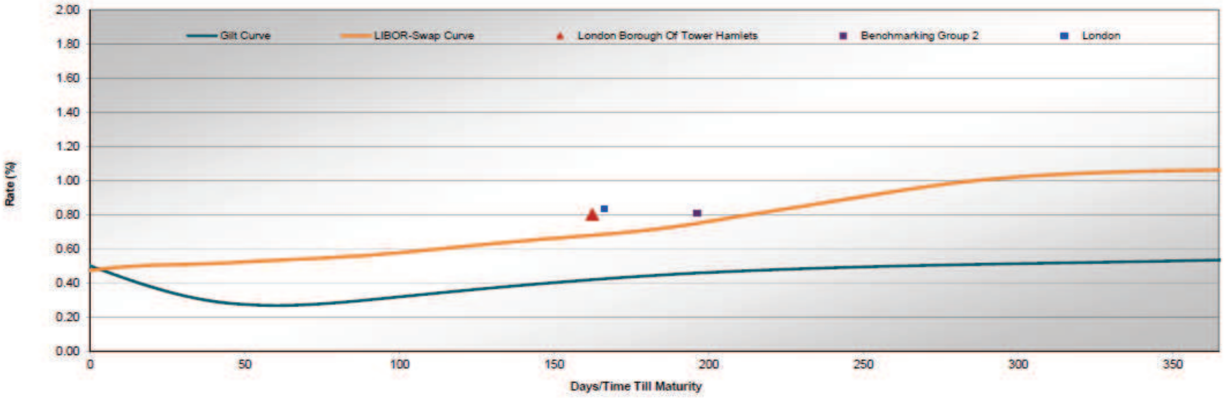
Population Returns against Model Returns



	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
London Borough Of Tower Hamlets	0.80%	0.81%	-0.01%	0.74%	0.88%	Inline

11.2 The weighted average rate of return (WARoR) - this is the average annualised rate of return weighted by the principal amount in each rate. And for Tower Hamlets is 0.80% at the end of September 2014, compared to 0.81% for the benchmarking group. The return on LBTH investment is commensurate with the Council’s risk appetite as set out in the Investment Strategy.

Returns Comparable Against the Risk-Free Rate and LIBOR Curve

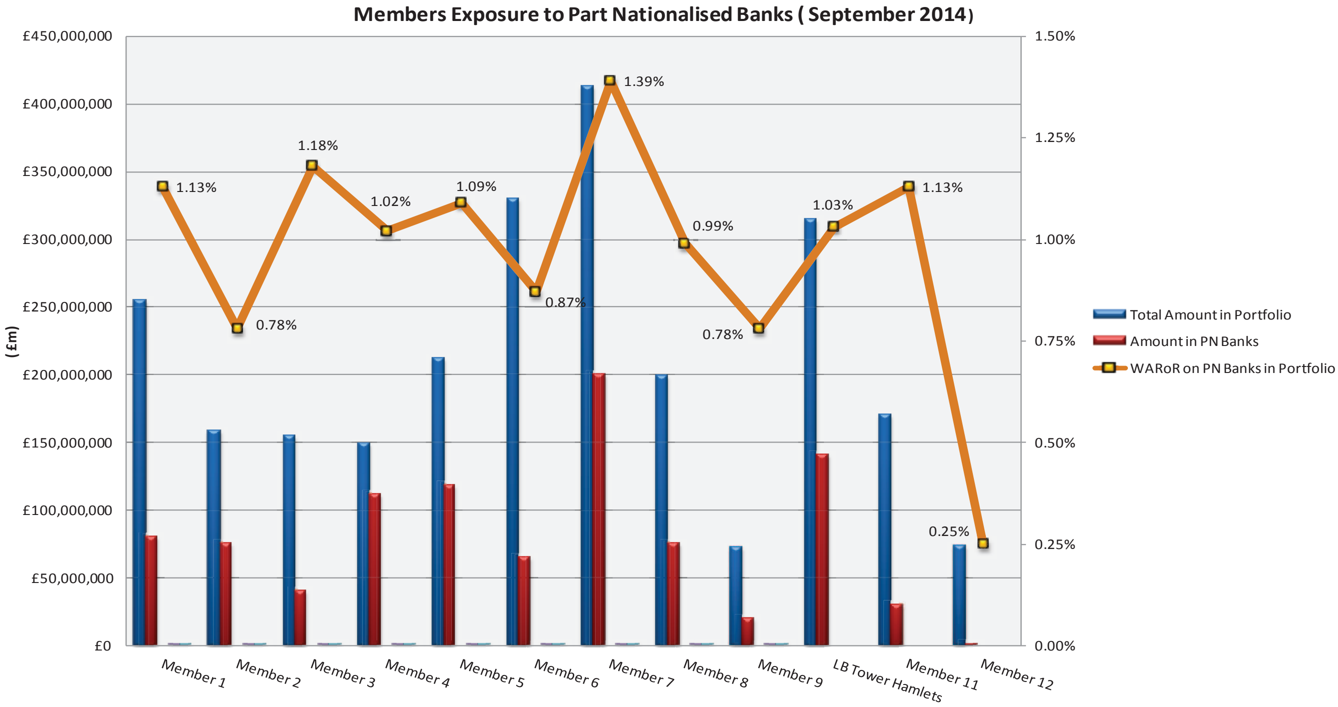


	WARoR	WAM	WATT	WARisk	Gilt	LIBOR-Swap	Difference Gilt	Difference LIBOR-Swap	Model Bands	Performance
London Borough Of Tower Hamlets	0.80%	162	309	3.3	0.42%	0.68%	0.38%	0.12%	0.74% - 0.88%	Inline
Benchmarking Group 2	0.81%	196	325	2.9	0.46%	0.75%	0.35%	0.06%	0.70% - 0.84%	Inline
London	0.83%	166	291	2.8	0.42%	0.68%	0.41%	0.15%	0.68% - 0.82%	Above

11.3 The Weighted Average Time to Maturity (WAM) - This is the average time, in days, till the portfolio matures, weighted by principal amount. At the end of September for LBTH was 162 days, compared to 196 days for the benchmarking group.

11.4 The Weighted Average Total Time (WATT) - this is the average time, in days, that deposits are lent out for, weighted by principal amount. At the end of September for LBTH was 309 days, compared to 325 days for the benchmarking group.

11.5 A further chart is set below that compares exposure to Part-Nationalised Banks (PNB) between club members as the Council currently has a significant amount of investment with PNBs. The chart shows that the Council’s allocation to and returns from investment with PNBs is in line with other London boroughs as at 30 September 2014.


Members Exposure to Part Nationalised Banks (September 2014)
£450,000,000
£400,000,000
£350,000,000
£300,000,000
£250,000,000
£200,000,000
£150,000,000
£100,000,000
£50,000,000
£0
(£m)
1.50%
1.25%
1.00%
0.75%
0.50%
0.25%
0.00%
1.13%
0.78%
1.18%
1.02%
1.09%
0.87%
1.39%
0.99%
0.78%
1.03%
1.13%
0.25%
Member 1
Member 2
Member 3
Member 4
Member 5
Member 6
Member 7
Member 8
Member 9
LB Tower Hamlets
Member 11
Member 12
Total Amount in Portfolio
Amount in PN Banks
WARoR on PN Banks in Portfolio

Counterparty Exposure as at 31 October 2014

Time to Maturity	Counterparty	From	Maturity	Amount £m	Rate
Overnight	IGNIS		**MMF**	15.00	0.48%
	Blackrock		**MMF**	15.00	0.46%
	BNP Paribas		**MMF**	12.80	0.40%
	SUB TOTAL			**42.80**	
< 1 Month	Lloyds Banking Group	13/11/2013	13/11/2014	5.00	0.98%
	Skandinaviska Enskilda Banken	29/04/2014	14/11/2014	5.00	0.56%
	Canadian Imperial Bank of Commerce	18/08/2014	18/11/2014	15.00	0.42%
1 - 3 Months	Lloyds Banking Group	04/12/2013	04/12/2014	5.00	0.98%
	Royal Bank of Scotland	09/07/2013	09/01/2015	5.00	0.95%
	Santander		Call - 95N	10.00	0.45%
	Royal Bank of Scotland	27/01/2012	27/01/2015	5.00	3.35%
	Lloyds Banking Group	04/02/2014	04/02/2015	5.00	0.95%
	Lloyds Banking Group	13/02/2014	13/02/2015	5.00	0.95%
	Commonwealth Bank of Australia	15/08/2014	13/02/2015	5.00	0.48%
	DZ Bank	26/08/2014	26/02/2015	5.00	0.71%
	Skandinaviska Enskilda Banken	29/08/2014	27/02/2015	5.00	0.64%
3 - 6 Months	Lloyds Banking Group	04/09/2014	04/03/2015	5.00	0.70%
	Lloyds Banking Group	05/03/2014	05/03/2015	10.00	0.95%
	Barclays	05/09/2014	05/03/2015	10.00	0.61%
	Commonwealth Bank of Australia	15/09/2014	16/03/2015	5.00	0.53%
	National Australia Bank	18/03/2014	18/03/2015	10.00	0.57%
	Lloyds Banking Group	07/10/2014	07/04/2015	5.00	0.70%
	Lloyds Banking Group	11/04/2014	10/04/2015	5.00	0.95%
	Lloyds Banking Group	11/07/2014	13/04/2015	10.00	0.80%
	Nationwide Building Society	13/10/2014	13/04/2015	5.00	0.66%
	Lloyds Banking Group	15/04/2014	15/04/2015	5.00	0.95%
	Royal Bank of Scotland	16/04/2013	16/04/2015	5.00	0.88%
	Royal Bank of Scotland	16/04/2014	16/04/2015	5.00	0.67%
	Nationwide Building Society	16/10/2014	16/04/2015	5.00	0.66%
	Lloyds Banking Group	17/07//2014	17/04/2015	5.00	0.80%
	Skandinaviska Enskilda Banken	29/04/2014	29/04/2015	5.00	0.71%
	Lloyds Banking Group	29/10/2014	29/04/2015	5.00	0.70%
	National Australia Bank	14/05/2014	14/05/2015	10.00	0.63%
	DZ Bank	26/08/2014	26/05/2015	5.00	0.86%
6 - 9 Months	National Australia Bank	07/07/2014	07/07/2015	5.00	0.64%
	Royal Bank of Scotland	15/07/2014	15/07/2015	20.00	0.97%
	Commonwealth Bank of Australia	15/07/2014	15/07/2015	5.00	0.83%
	Commonwealth Bank of Australia	17/07/2014	17/07/2015	5.00	0.82%
	Commonwealth Bank of Australia	12/08/2014	12/08/2015	5.00	0.81%
	DZ Bank	26/08/2014	26/08/2015	5.00	0.98%
9 - 12 Months					
> 12 Months	Royal Bank of Scotland	27/02/2013	26/02/2016	10.00	1.15%
	Royal Bank of Scotland	20/03/2014	20/03/2016	5.00	1.25%
	Royal Bank of Scotland	10/01/2014	09/01/2017	5.00	1.74% *
	SUB TOTAL			**255.00**	
	TOTAL			**297.80**	

* This is a structured deal, the terms of which could change during its tenor.

INVESTMENT RETURNS

12.1 Investment returns since inception of the cash management arrangement with Capita has been consistently above the portfolio benchmark, which is 7 Day LIBID (the London Interbank Bid Rate). Performance against target which is benchmark (7 Day LIBID) plus 0.25% has been good so far, with year to date return on investment at 0.72%, which is 12 basis points above target set.

12.2 The Strategy approved at the 26 February 2014 Council allowed for more flexibility and the benefits of this Strategy is proving extremely valuable given the challenge of a counterparty list that continues to contract in the face of credit worthiness downgrades by the ratings agencies. The latest counterparty list is attached at Appendix 3.

12.3 The portfolio delivered a return which outperforms the target set, LIBID + 0.25% for the first seven months of the year. Although returns are significantly above the LIBID, which currently stands at 0.35%.

12.4 With interest rates set to remain low and provided there's no undue increase in the Council's risk, we would continually review the counter party list prudently and cautiously in order to broaden the range of counterparties and/or products in order to enhance returns of our cash holdings, giving priority to the security and liquidity of investments before yield.

12.5 Below is a table that details performance of investments. The table shows that performance has consistently outperformed LIBID.

Performance against Benchmark

Period	LBTH Performance	Target (7 Day LIBID+0.25%)	(Under)/Out Performance
Full Year 2013/14	**0.82%**	**0.60%**	**0.22%**
April 2014/15	0.70%	0.59%	0.11%
May 2014/15	0.69%	0.59%	0.10%
June 2014/15	0.68%	0.60%	0.08%
July 2014/15	0.70%	0.60%	0.10%
August 2014/15	0.73%	0.60%	0.13%
September 2014/15	0.76%	0.61%	0.16%
October 2014/15	0.77%	0.61%	0.10%
Average 2014/15	**0.72%**	**0.60%**	**0.12%**

13 DEBT PORTFOLIO

13.1 The table below sets out the Council's debt as at the beginning of the year and 31 October 2014.

	31 March 2014 Principal £'000	Average rate %	31 October 2014 Principal £'000	Average rate %
Fixed Rate Funding:				
-PWLB	12,064	7.37	12,029	7.37
-Market	13,000	4.37	13,000	4.37
Total Fixed Rate Funding	25,064	5.81	25,029	5.81
Variable Rate Funding:				
-PWLB	-		-	
-Market	64,500	4.32	64,500	4.32
Total Variable Rate Funding	64,500	4.32	64,500	4.32
Total debt	***89,564***	***4.73***	***89,529***	***4.73***
CFR	***220,720***		***235,975***	
Over/ (under) borrowing	***(131,156)***		***(146,446)***	

13.2 No borrowing has been undertaken to date in this financial year. Total debt outstanding, stands at £89.529m, against estimated CFR of £235.975m for 2014/15, resulting in an under-borrowing of £146.446m

14. INVESTMENT STRATEGY UPDATE

14.1 Full Council approved the Investment Strategy on 26 February 2014. Officers continue to look for ways to maximise returns on cash balances within the constraints of the Investment Strategy. The Investment Strategy was developed based on an improving outlook in the money markets.

14.2 Wholly or partly owned government banks offer significantly higher rates than the DMO, but have similar levels of security based on government guarantee of their credit quality. The Council already relies on this guarantee and invests with these banks, and the current strategy is to have £70m money limit for each group with an aggregate of 40% of the overall investment portfolio. This should ensure that the Council continues to receive good returns on its cash balances and that the investment strategy is optimised to support the Council's efficiency programme.

15. COMMENTS OF THE CHIEF FINANCIAL OFFICER

15.1. The comments of the Acting Corporate Director Resources are incorporated in the report.

16. LEGAL COMMENTS

16.1 Treasury management activities cover the management of the Council's investments and cash flows, its banking, money market and capital market transactions, the effective control of risks associated with those activities and the pursuit of optimum performance consistent with those risks. The Local Government Act 2003 provides a framework for the capital finance of local authorities. It provides a power to borrow and imposes a duty on local authorities to determine an affordable borrowing limit. It provides a power to invest. Fundamental to the operation of the scheme is an understanding that authorities will have regard to proper accounting practices recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) in carrying out capital finance functions.

16.2 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require the Council to have regard to the CIPFA publication “Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes” (“the Treasury Management Code”) in carrying out capital finance functions under the Local Government Act 2003. If after having regard to the Treasury Management Code the Council wished not to follow it, there would need to be some good reason for such deviation.

16.3 The Treasury Management Code requires as a minimum that there be a practice of regular reporting on treasury management activities and risks to the responsible committee and that these should be scrutinised by that committee. Under the Council’s Constitution, the audit committee has the functions of monitoring the Council’s risk management arrangements and making arrangements for the proper administration of the Council’s affairs.

17. ONE TOWER HAMLETS CONSIDERATIONS

17.1 Interest on the Council’s cash flow has historically contributed significantly towards the budget.

18. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

18.1 There are no Sustainable Actions for A Greener Environment implications.

19. RISK MANAGEMENT IMPLICATIONS

19.1 Any form of investment inevitably involves a degree of risk. To minimise risk the investment strategy has restricted exposure of council cash balances to UK backed banks or institutions with the highest short term rating or strong long term rating.

20. CRIME AND DISORDER REDUCTION IMPLICATIONS

20.1 There are no crime and disorder reduction implications arising from this report.

21. EFFICIENCY STATEMENT

21.1 Monitoring and reporting of treasury management activities ensures the Council optimises the use of its monetary resources within the constraints placed on the Council by statute, appropriate management of risk and operational requirements.

LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D

LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT

Brief description of "background papers"	***Name and telephone number of holder And address where open to inspection***
September 2014 Benchmarking Report & October 2014 Investment Portfolio Analysis Report	*Bola Tobun Ext. 4733* *Mulberry Place, 3rd Floor.*

Appendix 1: Creditworthiness Policy

1 Credit rating information is supplied by Capita Asset Services, our treasury advisers, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing.

2 The criteria for providing a pool of high quality investment counterparties (both Specified and Non-Specified investments) is:

   i. Good credit quality – the Council will only use banks which:

      1. are UK banks; and/or
      2. are non-UK and domiciled in a country which has a minimum sovereign long term rating of AAA; and

   Where rated, have as a minimum, the following Fitch ratings, (for equivalent Moody's and Standard and Poor's credit ratings, see Table 1)

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

- Part nationalised/wholly owned UK banks (i.e. Lloyds Banking Group and Royal Bank of Scotland). These banks can be included if they continue to be part nationalised/wholly owned or they meet the ratings in Banks (i) above;
- The Council's own banker (The Co-operative Bank) for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time;
- Building Societies – The Council will use all building societies which meet the ratings for banks outlined above;
- Money Market Funds – UK, AAA (Sterling);
- UK Government (including gilts, treasury bills and the Debt Management Account Deposit Facility);
- Local Authorities (including parish councils, Police and Fire Authorities).
- Non UK Government
- Supranational Institutions
- Corporate Bonds

3 Specified investments comprise investment instruments which the Council considers offer high security and liquidity. These instruments can be used with minimal procedural formalities. The Guidance considers that specified investments have the following characteristics: -

- denominated in Sterling and have a term of less than one year;
- have "good" credit ratings as determined by the Council itself.

4 All other investments are termed non-specified investments. These involve a relatively higher element of risk, and consequently the Council is required to set a limit on the maximum proportion of their funds which will be invested in these

instruments. The Strategy should also specify the guidelines for making decisions and the circumstances in which professional advice is obtained.

5 Investment instruments identified for use in the financial year are listed in tables 3 and 4 below under the 'Specified' and 'Non-Specified' Investments categories with the associated counterparty limits as set through the Council's Treasury Management Practices – Schedules.

Specified Investments:

6 It is recommended that the Council should make Specified investment as detailed below in Table 2.

7 All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum credit quality criteria where applicable. The Council will continue its policy of lending surplus cash to counterparties that meet the Council's minimum credit ratings as outlined in below table 1.

8 The minimum credit rating required for an institution to be included in the Council's counterparty list is as follows:

Table 1

Agency	Long-Term	Short-Term
Fitch	A	F1
Moody's	A2	P-1
Standard & Poor's	A	A-2
Sovereign Rating	AAA	
Money Market Fund	AAA	

Specified Investments:

9 The current strategy is that all such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high credit' quality criteria where applicable. The council will continue its policy of lending surplus cash to counterparties that have high credit ratings, defining 'high credit rating' as being F1+ Fitch short-term and AA- long-term credit rating.

Table 2

Institution	Minimum High Credit Criteria	Term Limit	Monetary Limit
Debt Management Office (DMO) Deposit Facility	Not applicable	N/A	No Limit
Local Authorities	Not applicable	1 year	£10m
Term deposits – banks and building societies	Short-term F1+, Long-term AA-	1 year	£30m
Term deposits – banks and building societies	Short-term F1, Long-term A+	1 year	£15m
Term deposits – banks and building societies	Short-term F1, Long-term A	6 months	£10m
UK Government Gilts and Treasury Bills	Long Term AAA	1 year	£50m
UK Government – Part Nationalised Banks	Per group	1 year	£70m or 30% of the portfolio
Certificates of Deposits issued by banks and building	Short-term F1+, Long-term AA-	1 year	£30m
Non-UK Government Bonds	Sovereign rating Long Term AAA	1 year	£10m
Supranational Bonds	Sovereign rating Long Term AAA	1 year	£10m
Collective Investment Schemes structured as Investment Companies (OEICs)			
Money Market Funds	AAA rated	Liquid	£15m

Definitions of credit ratings are attached at **Appendix 2**.

Non-Specified Investments:

All investments that do not qualify as specified investments are termed non-specified investments. The credit criteria for non-specified investments are detailed in the table below.

Table 3

Institution	Minimum High Credit Criteria	Time Limit	Money Limit
Term deposits – Banks and Building Societies	Sovereign rating AAA Short-term F1+, Long-term AA-	3 years	£25m or 10% of Investment Portfolio
Structured Deposits: Fixed term depos variable rate and variable maturities	Sovereign rating AAA Short-term rating F1+ Long-term rating AA-	3 years	£25m or 10%of Investment Portfolio
UK Government Gilts and treasury bill	Long Term AAA	5 years	£25m or 10% of Investment Portfolio
Certificates of Deposits issued by banl society	Sovereign rating AAA Short-term rating F1+ Long-term rating AA-	3 years	£25m or 10% of Investment Portfolio

Appendix 2: Definition of Credit Ratings

Short-term Ratings

Rating	
F1	**Highest credit quality.** Indicates the strongest capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.
F2	**Good credit quality.** A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.
F3	**Fair credit quality.** The capacity for timely payment of financial commitments is adequate; however, near-term adverse changes could result in a reduction to non-investment grade.

Long-term Ratings

Rating	Current Definition
AAA	**Highest credit quality.** 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
AA	**Very high credit quality.** 'AA' ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A	**High credit quality.** 'A' ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.
BBB	**Good credit quality.** 'BBB' ratings indicate that there is currently a low expectation of credit risk. The capacities for timely payment of financial commitments are considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity. This is the lowest investment-grade category

Individual Ratings

Rating	
A	A very strong bank. Characteristics may include outstanding profitability and balance sheet integrity, franchise, management, operating environment or prospects.
B	A strong bank. There are no major concerns regarding the bank. Characteristics may include strong profitability and balance sheet integrity, franchise, management, operating environment or

	prospects.
C	An adequate bank, which, however, possesses one or more troublesome aspects. There may be some concerns regarding its profitability and balance sheet integrity, franchise, management, operating environment or prospects.
D	A bank, which has weaknesses of internal and/or external origin. There are concerns regarding its profitability, substance and resilience, balance sheet integrity, franchise, management, operating environment or prospects. Banks in emerging markets are necessarily faced with a greater number of potential deficiencies of external origin.
E	A bank with very serious problems, which either requires or is likely to require external support.

APPENDIX 3

COUNTER PARTY LIST

NAME	FITCH RATING				MOODY RATING			S&P RATING	
	Long Term	Short Term	Viability	Support	Long Term	Short Term	FSR	Long Term	Short Term
U.K	AA+	-	-	-	Aa1	-	-	AAA	-
Abbey National Treasury Services plc	A	F1	-	-	A2	P-1	-	-	-
Bank of New York Mellon (International) Ltd	AA-	F1+	-	1	-	-	-	-	-
Barclays Bank plc	A	F1	a	1	A2	P-1	C-	A	A-1
Citibank International Plc ~	A	F1	-	1	A2	P-1	C-	A	A-1
Close Brothers Ltd	A	F1	a	5	A3	P-2	C	-	-
Clydesdale Bank	A	F1	bbb+	1	Baa2	P-2	D+	BBB+	A-2
Co-operative Bank Plc	B	B	b	5	Caa2	NP	E	-	-
Credit Suisse International ~	A	F1	-	1	A1	P-1	-	A	A-1
Goldman Sachs International ~	A	F1	-	-	A2	P-1	-	A	A-1
Goldman Sachs International Bank ~	A	F1	-	-	A2	P-1	D+	A	A-1
HSBC Bank plc	AA-	F1+	a+	1	Aa3	P-1	C	AA-	A-1+
MBNA Europe Bank	A-	F1	-	1	-	-	-	-	-
Merrill Lynch International	A	F1	-	1	-	-	-	A	A-1
Morgan Stanley & Co. International plc ~	-	-	-	-	A3	P-2	-	A	A-1
Santander UK plc	A	F1	a	1	A2	P-1	C-	A	A-1
Standard Chartered Bank	AA-	F1+	aa-	1	A1	P-1	B-	AA-	A-1+
Sumitomo Mitsui Banking Corporation Europe Ltd ~	A-	F1	-	1	Aa3	P-1	C	A+	A-1
UBS Ltd ~	A	F1	-	1	A2	P-1	-	A	A-1
Lloyds Banking Group plc	A	F1	a-	1	A2	-	-	A-	A-2
Bank of Scotland Plc	A	F1	a-	1	A1	P-1	C-	A	A-1
Lloyds Bank Plc	A	F1	a-	1	A1	P-1	C-	A	A-1
Royal Bank of Scotland Group plc	A	F1	bbb	1	Baa2	P-2	-	BBB+	A-2
National Westminster Bank Plc	A	F1	bbb	1	Baa1	P-2	D+	A-	A-2
The Royal Bank of Scotland Plc	A	F1	bbb	1	Baa1	P-2	D+	A-	A-2
Ulster Bank Ltd (Suspended)	A-	F1	ccc	1	Baa3	P-3	E+	BBB+	A-2
Coventry BS	A	F1	a	5	A3	P-2	C	-	-
Nationwide BS	A	F1	a	1	A2	P-1	C	A	A-1

NAME	FITCH RATING				MOODY RATING			S&P RATING	
	Long Term	Short Term	Viability	Support	Long Term	Short Term	FSR	Long Term	Short Term
Collateralised LA Deposit*	AA+	-	-	-	Aa1	-	-	AAA	-
Debt Management Office	AA+	-	-	-	Aa1	-	-	AAA	-
Supranationals	AAA	-	-	-	Aaa	-	-	AAA	-
UK Gilts	AA+	-	-	-	Aa1	-	-	AAA	-
Australia	**AAA**	**-**	**-**	**-**	**Aaa**	**-**	**-**	**AAA**	**-**
Australia and New Zealand Banking Group Ltd	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+
Commonwealth Bank of Australia	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+
Macquarie Bank Limited	A	F1	a	3	A2	P-1	C-	A	A-1
National Australia Bank Ltd	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+
Westpac Banking Corporation	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+
Canada	**AAA**	**-**	**-**	**-**	**Aaa**	**-**	**-**	**AAA**	**-**
Bank of Montreal	AA-	F1+	aa-	1	Aa3	P-1	C+	A+	A-1
Bank of Nova Scotia	AA-	F1+	aa-	1	Aa2	P-1	B-	A+	A-1
Canadian Imperial Bank of Commerce	AA-	F1+	aa-	1	Aa3	P-1	C+	A+	A-1
National Bank of Canada	A+	F1	a+	1	Aa3	P-1	C	A	A-1
Royal Bank of Canada	AA	F1+	aa	1	Aa3	P-1	C+	AA-	A-1+
Toronto Dominion Bank	AA-	F1+	aa-	1	Aa1	P-1	B	AA-	A-1+
Denmark	**AAA**	**-**	**-**	**-**	**Aaa**	**-**	**-**	**AAA**	**-**
Danske Bank	A	F1	a	1	Baa1	P-2	C-	A	A-1
Finland	AAA	-	-	-	Aaa	-	-	AAA	-
Nordea Bank Finland plc ~	AA-	F1+	aa-	1	Aa3	P-1	C	AA-	A-1+
Pohjola Bank	A+	F1	-	1	Aa3	P-1	C-	AA-	A-1+
Germany	**AAA**	**-**	**-**	**-**	**Aaa**	**-**	**-**	**AAA**	**-**
BayernLB	A+	F1+	bb+	1	A3	P-2	D	-	-
Commerzbank AG	A+	F1+	bbb	1	Baa1	P-2	D+	A-	A-2
Deutsche Bank AG	A+	F1+	a	1	A3	P-2	D+	A	A-1
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	A+	F1+	-	1	A1	P-1	C-	AA-	A-1+
Landesbank Baden Wuerttemberg	A+	F1+	bbb	1	A2	P-1	D+	-	-
Landesbank Berlin AG	-	-	-	-	A1	P-1	D+	-	-
Landesbank Hessen-Thueringen Girozentrale (Helaba)	A+	F1+	-	1	A2	P-1	D+	A	A-1
Landwirtschaftliche Rentenbank	AAA	F1+	-	1	Aaa	P-1	-	AAA	A-1+
Norddeutsche Landesbank Girozentrale	A	F1	bbb-	1	A3	P-2	D	BBB+	A-2
NRW.BANK	AAA	F1+	-	1	Aa1	P-1	-	AA-	A-1+
UniCredit Bank AG (Suspended)	A+	F1+	a-	1	Baa1	P-2	D+	A-	A-2

NAME	FITCH RATING				MOODY RATING			S&P RATING	
	Long Term	Short Term	Viability	Support	Long Term	Short Term	FSR	Short Term	Long Term
Netherlands	**AAA**	**-**	**-**	**-**	**Aaa**	**-**	**-**	**AA+**	**-**
Bank Nederlandse Gemeenten	AAA	F1+	-	1	Aaa	P-1	B-	AA+	A-1+
Cooperatieve Centrale Raiffeisen Boerenleenbank BA (Rabobank Nederland)	AA-	F1+	-	1	Aa2	P-1	B-	AA-	A-1+
ING Bank NV	A+	F1+	a	1	A2	P-1	C-	A	A-1
Nederlandse Waterschapsbank N.V	-	-	-	-	Aaa	P-1	C+	AA+	A-1+
Norway	**AAA**	**-**	**-**	**-**	**Aaa**	**-**	**-**	**AAA**	**-**
DnB Bank	-	-	-	-	A1	P-1	C-	A+	A-1
Singapore	**AAA**	**-**	**-**	**-**	**Aaa**	**-**	**-**	**AAA**	**-**
DBS Bank Ltd	AA-	F1+	aa-	1	Aa1	P-1	B	AA-	A-1+
Oversea Chinese Banking Corporation Ltd	AA-	F1+	aa-	1	Aa1	P-1	B	AA-	A-1+
United Overseas Bank Ltd	AA-	F1+	aa-	1	Aa1	P-1	B	AA-	A-1+
Sweden	**AAA**	**-**	**-**	**-**	**Aaa**	**-**	**-**	**AAA**	**-**
Nordea Bank AB	AA-	F1+	aa-	1	Aa3	P-1	C	AA-	A-1+
Skandinaviska Enskilda Banken AB	A+	F1	a+	1	A1	P-1	C-	A+	A-1
Swedbank AB	A+	F1	a+	1	A1	P-1	C-	A+	A-1
Svenska Handelsbanken AB	AA-	F1+	aa-	1	Aa3	P-1	C	AA-	A-1+
Switzerland	**AAA**	**-**	**-**	**-**	**Aaa**	**-**	**-**	**AAA**	**-**
Credit Suisse AG	A	F1	a	1	A1	P-1	C-	A	A-1
UBS AG	A	F1	a	1	A2	P-1	C-	A	A-1

Appendix 4: Glossary of Investments Instruments

Certificates of Deposits	A certificate of deposit (CD) is a time deposit, a financial product. CDs are similar to savings accounts in that they are insured and thus virtually risk free; they are "money in the bank." They are different from savings accounts in that the CD has a specific, fixed term (often monthly, three months, six months, or one to five years) and, usually, a fixed interest rate. It is intended that the CD be held until maturity, at which time the money may be withdrawn together with the accrued interest.
Commercial paper	Commercial paper is a money-market security issued (sold) by large corporations to obtain funds to meet short-term debt obligations (for example, payroll), and is backed only by an issuing bank or corporation's promise to pay the face amount on the maturity date specified on the note. Since it is not backed by collateral, only firms with excellent credit ratings from a recognized credit rating agency will be able to sell their commercial paper at a reasonable price. Commercial paper is usually sold at a discount from face value, and carries higher interest repayment rates than bonds
Corporate bonds	A corporate bond is a bond issued by a corporation. It is a bond that a corporation issues to raise money effectively in order to expand its business.[1] The term is usually applied to longer-term debt instruments, generally with a maturity date falling at least a year after their issue date.
Gilt	Gilt-edged securities are bonds issued by certain national governments. The term is of British origin, and originally referred to the debt securities issued by the Bank of England, which had a gilt (or gilded) edge. Hence, they are known as gilt-edged securities, or gilts for short. Today the term is used in the United Kingdom as well as some Commonwealth nations, such as South Africa and India. However, when reference is made to "gilts", what is generally meant is "UK gilts," unless otherwise specified.
Supranational bonds	Supranational bonds are issued by institutions that represent a number of countries, not just one. Thus, organisations that issue such bonds tend to be the World Bank or the European Investment Bank. The issuance of these bonds are for the purpose of promoting economic development
Treasury bills (or T-bills)	Treasury bills (or T-bills) mature in one year or less. Like zero-coupon bonds, they do not pay interest prior to maturity; instead they are sold at a discount of the par value to create a positive yield to maturity. Many regard Treasury bills as the least risky investment available.