

OVERVIEW AND SCRUTINY COMMITTEE

Thursday 26 January 2017 at 6.30 pm

Council Chamber, Ryedale House, Malton

Agenda

1 Emergency Evacuation Procedure.

The Chairman to inform Members of the Public of the emergency evacuation procedure.

2 Apologies for absence

3 Urgent Business

To receive notice of any urgent business which the Chairman considers should be dealt with at the meeting as a matter of urgency by virtue of Section 100B(4)(b) of the Local Government Act 1972.

4 Declarations of Interest

Members to indicate whether they will be declaring any interests under the Code of Conduct.

Members making a declaration of interest at a meeting of a Committee or Council are required to disclose the existence and nature of that interest. This requirement is not discharged by merely declaring a personal interest without further explanation.

PART 1: ACTING AS THE CORPORATE GOVERNANCE STANDARDS COMMITTEE

5 Date of the next Corporate Governance Standards Sub-Committee

6 Appointment of the Corporate Governance Standards Sub-Committee

To appoint three members to the Corporate Governance Standards Sub-Committee (political proportionality does not apply).

PART 2: ACTING AS THE AUDIT COMMITTEE

- 7 **Minutes of the meeting held on the 3 November 2016** (Pages 3 - 6)
- 8 **Treasury Management Statement and Investment Strategy 2017-18** (Pages 7 - 32)
- 9 **Appointment of the sector led body Public Sector Audit Appointments (PSAA) to appoint external audit services for Ryedale District Council from 1 April 2018** (Pages 33 - 60)
- 10 **KPMG Certification of claims and returns** (Pages 61 - 64)
- 11 **Internal audit second progress report 2016/17** (Pages 65 - 72)
- 12 **Annual Governance Statement action plan** (Pages 73 - 78)
- 13 **KPMG Technical update** (Pages 79 - 94)
- 14 **Any other business that the Chairman decides is urgent.**

Overview and Scrutiny Committee

Held at Council Chamber, Ryedale House, Malton
on Thursday 3 November 2016

Present

Councillors Acomb (Vice-Chairman), Cussons, Duncan, Gardiner, Jainu-Deen, Jowitt, Keal (Chairman), Potter and Wainwright

In Attendance

Audrey Adnitt, Beckie Bennett, Fiona Brown, Stuart Cutts (Veritau), Peter Johnson, Clare Slater and Rob Walker (KPMG).

Minutes

49 **Apologies for absence**

Apologies were received from Councillor Sanderson.

50 **Minutes of the meeting held on the 21 September 2016**

Decision

That the minutes of the Overview and Scrutiny Committee held on the 21 September 2016, be approved and signed by the Chairman as a correct record.

51 **Urgent Business**

There were no items of urgent business.

52 **Declarations of Interest**

There were no declarations of interest.

53 **Treasury Management Mid-Year Review**

Considered the report of the Finance Manager (s151)

Decision

That the report be received and the mid year performance of the in-house managed funds to dated be noted.

54 **External Auditor Appointment 2017/18**

Considered the letter from the Public Sector Audit Appointments confirming the appointment of KPMG LLP to audit the accounts of Ryedale District Council for 2017/18.

Decision

That the contents of the letter be noted.

55 Internal Audit - First Progress Report 2016/17

Considered the report of the Finance Manager (s151).

Decision

That the results of audit work undertaken as part of the 2016/17 audit plan be noted.

56 KPMG Annual Audit Letter 2015/16

Considered the Annual Audit Letter 2015/16 prepared by KPMG.

Decision

That the contents of the report be noted.

57 Scrutiny Review - Flood Management in Ryedale

Considered the report of the Head of Environment, Streetscene and Facilities.

Decision

That the report be agreed, subject to some minor alterations regarding the Grant Allocations.
A copy of the updated recommendations to be distributed to all Members of the Committee.

58 KPMG Technical Update - October 2016

Considered a Technical Update prepared by KPMG.

Decision

That the report be received.

59 **Timetable of Meetings 2017/18**

Considered the report of the Council Solicitor.

Recommendation

That Council be recommended to approve the timetable of meetings for 2017-2018.

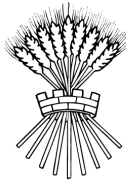
60 **Any other business that the Chairman decides is urgent.**

There being no further business the meeting closed at 7.30pm.

This page is intentionally left blank

OVERVIEW AND SCRUTINY ITEM, FOR CONSIDERATION PRIOR TO FULL COUNCIL

**RYEDALE
DISTRICT
COUNCIL**



REPORT TO:	COUNCIL
DATE:	21 FEBRUARY 2017
REPORT OF THE:	RESOURCES & ENABLING SERVICES LEAD (s151) PETER JOHNSON
TITLE OF REPORT:	TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2017/18
WARDS AFFECTED:	ALL

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

- 1.1 To consider the Treasury Management and Annual Investment Strategies, the Minimum Revenue Provision Policy and set the Prudential Indicators for 2017/18.

2.0 RECOMMENDATIONS

- 2.1 That Council is recommended to approve:
- (i) Members receive this report;
 - (ii) The Treasury Management and Investment Strategies be noted and approved by the Council;
 - (iii) The Minimum Revenue Provision Policy Statement be approved by the Council and;
 - (iii) That the Prudential Indicators in the report be approved by the Council.

3.0 REASON FOR RECOMMENDATIONS

- 3.1 The Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Treasury Management in Local Authorities (The Code) was adopted by the Council.
- 3.2 The Local Government Act 2003 and supporting regulations requires the Council to have regard to specified codes of practice, namely the CIPFA publications *Prudential Code for Capital Finance in Local Authorities* and *Treasury Management in the Public Services; Code of Practice and Cross Sectoral Guidance Notes*.

4.0 SIGNIFICANT RISKS

- 4.1 There are significant risks when investing public funds especially with unknown institutions. However, by the adoption of the CIPFA Code and a prudent investment policy, these are minimised. The employment of Treasury Advisors also helps reduce the risk.

5.0 POLICY CONTEXT AND CONSULTATION

- 5.1 The Council has adopted the CIPFA Code of Practice on Treasury Management in Local Authorities and this report complies with the requirements under this code and the relevant requirements of the Local Government Act 2003.
- 5.2 The Council use the services of Capita Asset Services to provide treasury management information and advice.

REPORT

6.0 REPORT DETAILS

- 6.1 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 initially before considering investment return.
- 6.2 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. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 6.3 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."

Reporting Requirements

- 6.4 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. These reports are required to be adequately scrutinised by committee before being recommended to the Council. This role is undertaken by the Overview and Scrutiny Committee.

Prudential and Treasury Indicators and Treasury Strategy (this report) – The first and most important report covers:

- The capital plans (including prudential indicators);
- A Minimum Revenue Provision Policy (how residual capital expenditure is charged to revenue over time);
- 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).

A Mid Year Treasury Management Report. This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy or whether any policies require revision.

An Annual Treasury Report. This provides details of a selection of actual prudential treasury indicators and actual treasury operations compared to the estimates within the strategy.

Treasury Management Strategy for 2017/18

6.5 The strategy for 2017/18 covers two main areas

Capital Issues

- The capital plans and prudential indicators
- The MRP strategy

Treasury Management Issues

- The current treasury position;
- Treasury indicators which will limit the treasury risk and activities of the Council;
- Prospects for interest rates;
- The borrowing strategy;
- Policy on borrowing in advance of need;
- The investment strategy; and
- Creditworthiness policy.

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

THE CAPITAL PRUDENTIAL INDICATORS 2017/18 – 2019/20

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

6.7 **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	2015/16 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Capital Programme	1.076	2.543	0.957	0.853	0.788

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

6.8 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 need (borrowing):

Capital Expenditure	2015/16 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Total	1.076	2.543	0.957	0.853	0.788
Financed by:					
Capital receipts	0	-0.356	-0.030	-0.030	-0.030
Capital grants	-0.302	-0.408	-0.408	-0.408	-0.408
Revenue	-0.034	-1.779	-0.199	-0.415	-0.350
Net financing need for the year	0.740	0	0.320	0	0

6.9 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.

- 6.10 Following accounting changes the CFR includes any other long term liabilities (e.g. PFI schemes, finance leases) brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £0.621m of such schemes within the CFR.

The Council is asked to approve the CFR projections below:

	2015/16 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Capital Financing Requirement					
Total CFR	2.351	2.227	2.491	2.278	2.214
Movement in CFR	0.825	-0.124	0.264	-0.214	-0.064

Movement in CFR represented by					
Net financing need for the capital programme	0.740	0	0.320	0	0
Net financing need – other long term liabilities	0.270	0.049	0.158	0	0.158
Less MRP and other financing movements	-0.185	-0.173	-0.214	-0.214	-0.222
Movement in CFR	0.825	-0.124	0.264	-0.214	-0.064

MRP Policy Statement

- 6.11 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), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision – VRP).
- 6.12 CLG Regulations have been issued which require the full Council to approve an MRP Policy Statement in advance of each year. A variety of options are provided to councils so long as there is a prudent provision. **The Council is recommended to approve the following MRP Statement.**

Certain expenditure reflected within the actual debt liability at 31 March 2016 will under delegated powers be subject to MRP under option 3 of the guidance; this

relates to the acquisition through finance lease of refuse and recycling vehicles and will be charged over a period which is commensurate with the life of the lease, using the annuity method.

For future borrowing, estimated life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will be divided up in cases where there are two or more major components with substantially different useful economic lives.

The Use of the Council's Resources and the Investment Position

- 6.13 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 on-going impact on investments unless resources are supplemented each year from new sources (asset sales etc). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources	2015/16 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Fund balances / reserves	5.909	4.740	5.922	6.241	6.371
Capital receipts	0.286	0.286	0.286	0.286	0.286
Provisions	0.643	0.643	0.643	0.643	0.643
Total core funds	6.838	5.669	6.851	7.170	7.300
Working capital*	3.464	3.464	3.464	3.464	3.464
Under/over borrowing	0	0	0	0	0
Expected Investments	10.302	9.133	10.315	10.634	10.764

*working capital balances shown are estimated year end; these may be higher mid year

Affordability Prudential Indicators

- 6.14 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. **The Council is asked to approve the following indicators:**

Actual and estimates of the 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.

	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Non HRA	2.09%	2.66%	3.62%	3.73%	2.82%

The estimates of financing costs include current commitments and the proposals in

this budget report.

Estimates of the incremental impact of capital investment decisions on council tax. This indicator identifies the revenue costs associated with proposed changes to the 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.

Incremental impact of capital investment decisions on the band D council tax

	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Council tax – band D	£0.06	£0.13	£0.21

TREASURY MANAGEMENT STRATEGY

- 6.15 The capital expenditure plans provide details of the service activity of the Council. 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 the service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

Current Portfolio Position

- 6.16 The Council's treasury portfolio position at 31 March 2016, 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.

	2015/16 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
External Debt					
Debt at 1 April	1.750	1.730	1.695	1.974	1.933
Expected change in debt	-0.020	-0.035	0.279	-0.041	-0.041
Other long term liabilities (OLTL)	0.516	0.621	0.532	0.517	0.346
Expected change in OLTL	0.105	-0.089	-0.015	-0.172	-0.024
Actual gross debt at 31 March	2.351	2.227	2.491	2.278	2.214
Capital financing Requirement	2.351	2.227	2.491	2.278	2.214
Under / over(-) borrowing	0	0	0	0	0

- 6.17 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 total debt net of any investments, 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 2017/18 and the following two financial years (shown as net borrowing above). This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

- 6.18 The Chief Financial Officer 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.

Treasury Indicators: Limits to Borrowing Activity

- 6.19 **The Operational Boundary.** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Operational Boundary	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Debt	5.000	5.000	5.000	5.000
Other long term liabilities	0.600	0.600	0.400	0.400
Total	5.600	5.600	5.400	5.400

- 6.20 **The Authorised Limit for external debt.** A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans or those of a specified council, although this power has not been exercised.

The Council is asked to approve the following Authorised Limit:

Authorised Limit	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Debt	10.000	10.000	10.000	10.000
Other long term liabilities	1.000	1.000	1.000	1.000
Total	11.000	11.000	11.000	11.000

Prospects for Interest Rates

- 6.21 The Council has appointed Capita as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Annex G draws together a number of current city forecasts for short term (bank rate) and longer fixed interest rates. The following table gives the Capita central view

	Bank Rate	PWLB Borrowing Rates		
		5 Year	25 Year	50 Year
March 2017	0.25	1.60	2.90	2.70
June 2017	0.25	1.60	2.90	2.70
Sept 2017	0.25	1.60	2.90	2.70
Dec 2017	0.25	1.60	3.00	2.80
March 2018	0.25	1.70	3.00	2.80
June 2018	0.25	1.70	3.00	2.80
Sept 2018	0.25	1.70	3.10	2.90
Dec 2018	0.25	1.80	3.10	2.90
March 2019	0.25	1.80	3.20	3.00
June 2019	0.50	1.90	3.20	3.00
Sept 2019	0.50	1.90	3.30	3.10
Dec 2019	0.75	2.00	3.30	3.10
March 2020	0.75	2.00	3.40	3.20

6.23 An economic outlook is included at Annex F, the challenging and uncertain economic environment has several key treasury management implications:

- Investment returns are likely to remain low during 2017/18 and beyond;
- Borrowing interest rates have been on a generally downward trend during most of 2016 up to mid-August; they fell sharply to historically phenomenally low levels after the referendum and then even further after the MPC meeting of 4th August when a new package of quantitative easing purchasing of gilts was announced. Gilt yields have since risen sharply due to a rise in concerns around a 'hard Brexit', the fall in the value of sterling, and an increase in inflation expectations. 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 capital expenditure and/or to refinance maturing debt;
- 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.

Borrowing Strategy

6.24 The Council has resolved to borrow £2.07m as funding towards the 4 year capital programme, specifically as funding towards the A64 Brambling Fields upgrade, the Council delayed borrowing until internal capital funds reached the point where they were insufficient to meet capital expenditure. The Council has undertaken £1.75m of its total borrowing requirement.

The Chief Financial Officer will monitor interest rates in conjunction with Treasury Advisors and seek to borrow the remaining £320k at the most advantageous point in time. Any decisions will be reported to the Policy and Resources Committee.

Treasury Management Limits on Activity

6.25 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;
- 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:

%	2017/18 £'000	2018/19 £'000	2019/20 £'000
Interest Rates Exposure	Upper	Upper	Upper
Borrowing:			
Limits on fixed interest rates	100%	100%	100%
Limits on variable interest rates	5%	5%	5%
Investments:			
Limits on fixed interest rates	100%	100%	100%
Limits on variable interest rates	50%	50%	50%
Maturity Structure of fixed interest rate borrowing 2017/18	Lower	Upper	
15 years to 20 years	36%	52%	
45 years to 50 years	48%	64%	

Policy on Borrowing in Advance of Need

- 6.26 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.

ANNUAL INVESTMENT STRATEGY

Investment Policy

- 6.27 The Council's investment policy has regard to the CLGs Guidance on Local Government Investments ("the Guidance") and the 2011 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, and then return.
- 6.28 In accordance with guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using the Sector ratings service banks ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.
- 6.29 Further the Council's officers recognise that ratings should 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. To this end 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. This is fully integrated into the credit methodology provided by the advisors, Sector in producing its colour coding which show the varying degrees of creditworthiness.
- 6.30 The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk. The intention of the strategy is to provide security of investment and minimisation of risk.

- 6.31 Investment securities identified for use in the financial year are listed in Annex B under the Specified and Non-Specified Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – schedules. The Council's bankers are excluded from these limits.

Creditworthiness Policy

- 6.32 This Council applies the creditworthiness service provided by Capita Asset Services (Sector). This service employs a sophisticated modelling approach utilising credit ratings from all three main credit rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:

- Credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- Sovereign ratings to select counterparties from only the most creditworthy countries.

- 6.33 This modelling approach combines credit ratings, credit watches, and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour code bands, which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the duration for investments. The Council will therefore use the counterparties within the following durational bands:

- Yellow 5 years *
- Dark Pink 5 years for enhanced money market funds with a credit score of 1.25
- Light Pink 5 years for enhanced money market funds with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

* This category has been added for AAA rated Government debt or its equivalent.

- 6.34 The Capita Asset Services creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency ratings.
- 6.35 Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of Short Term rating F1 , Long Term rating A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these, instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.
- 6.36 All credit ratings will be monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of the Capita Asset Services creditworthiness service.
- If a downgrade results in the counterparty / investment scheme no longer meeting

the Council's minimum criteria, its further use as a new investment will be with drawn immediately;

- In addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the lending list.

- 6.37 Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

Country Limits

- 6.38 The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies). The list of countries that qualify using this credit criteria as at the date of this report are shown in Annex C. This list will be added to or deducted from by officers should ratings change in accordance with this policy.

Investment Strategy to be followed with cash flow derived balances

- 6.39 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.

- 6.40 **Investment returns expectations.** Bank Rate is forecast to stay flat at 0.25% until quarter 2 2019 and not to rise above 0.75% until quarter 1 2020. Bank Rate forecasts for financial year ends (March) are:

2016/17 0.25%

2017/18 0.25%

2018/19 0.25%

2019/20 0.50%

The overall balance of risks to these forecasts is currently probably slightly skewed to the downside in view of the uncertainty over the final terms of Brexit. If growth expectations disappoint and inflationary pressures are minimal, the start of increases in Bank Rate could be pushed back. On the other hand, should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk i.e. Bank Rate increases occur earlier and / or at a quicker pace.

- 6.41 **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.

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

Maximum principal sums invested > 364 days			
	2017/18	2018/19	2019/20
Principal sums invested > 364 days	£1.0m	£1.0m	£1.0m

- 6.42 For its cash flow generated balances, the Council will seek to utilise its notice accounts, money market funds and short dated deposits (overnight to three months) in order to benefit from the compounding of interest.

End of Year Investment Report

- 6.43 At the end of the financial year the Council will report on its investment activity as part of the Annual Treasury Report.

Policy on the use of external service providers

- 6.44 The Council uses Capita as its external treasury management advisors.
- 6.45 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.
- 6.46 It also 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.

Scheme of Delegation

- 6.47 Please see Annex D.

Role of the section 151 officer

- 6.48 Please see Annex E.

7.0 IMPLICATIONS

- 7.1 The following implications have been identified:
- a) Financial
The results of the investment strategy affect the funding of the Capital Programme.
 - b) Legal
There are no legal implications regarding this report.
 - c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder)
There are no legal implications regarding this report.

Peter Johnson

Resources & Enabling Services Lead (s151)

Author: Peter Johnson, Resources & Enabling Services Lead (s151)
Telephone No: 01653 600666 ext: 392
E-Mail Address: peter.johnson@ryedale.gov.uk

Background Papers:

None

Background Papers are available for inspection at:

None

TREASURY MANAGEMENT STATEMENT AND INVESTMENT STRATEGY REPORT- RISK MATRIX – ANNEX A

Issue/Risk	Consequences if allowed to happen	Likelihood	Impact	Mitigation	Mitigated Likelihood	Mitigated Impact
Credit risk - associated with investing with financial institutions that do not meet the credit rating criteria.	Could mean loss of principal sum and interest accrued.	2	D	Although the economic climate is improving, counterparty risk is still a big issue. As a result the Council have adopted a stringent credit rating methodology.	1	D
Market risk - Selection of wrong type of investment for higher return.	The poor performance of the chosen investment.	2	B	The number of investment options is kept to a minimum. Investments are normally restricted to short term fixed rate deposits or instant access accounts.	2	B
Liquidity risk - Use of fixed term deposits and / or instruments / investments with low marketability may mean a lack of liquidity	Unable to take advantage of better investment options. Funds are unavailable to cover capital spend.	1	B	This Strategy specifies the type of instrument the authority is prepared to invest in and maximum term for those investments	1	B

Score	Likelihood	Score	Impact
1	Very Low	A	Low
2	Not Likely	B	Minor
3	Likely	C	Medium
4	Very Likely	D	Major
5	Almost Certain	E	Disaster

This page is intentionally left blank

ANNEX B

SPECIFIED AND NON-SPECIFIED INVESTMENTS

SPECIFIED INVESTMENTS:

All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable. These are considered low risk assets where the possibility of loss of principal or investment income is small.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

Investment	Minimum Credit Criteria / Colour Band	£ limit per institution and single transaction	Max maturity period
Debt Management Agency Deposit Facility	N/A	£3.0m	6 months
Term deposits – local authorities	N/A	£3.0m	1 year
Term deposits - UK part nationalised banks	Blue **	£3.0m	1 year
Term deposits – banks and building societies	Orange Red Green No colour	£3.0m	Up to 1 year Up to 6 months Up to 100 days Not for use
Money Market Funds	AAA	£3.0m	Liquid

**only applies to nationalised or semi nationalised UK Banks

NON-SPECIFIED INVESTMENTS

A maximum of £1.0m will be held in aggregate in non-specified investment

1. Maturities of ANY period

Investment	Minimum Credit Criteria / Colour Band	Maximum Investment	Maximum maturity period
Certificates of deposits issued by banks and building societies	Green	£1.0m	Up to 2 years
UK Government Gilts	Sovereign rating	£1.0m	Up to 2 years
Bonds issued by multilateral development banks	AAA	£1.0m	Up to 2 years
Bonds issued by a financial institution which is explicitly guaranteed by the UK government	Sovereign rating	£1.0m	Up to 2 years
Fixed term deposits with variable rate and variable maturities:			
Structured deposits	Green	£1.0m	Up to 2 years
Commercial paper issuance by UK banks covered by UK Government guarantee	Green	£1.0m	Up to 2 years
Other debt issuance by UK banks covered by UK Government guarantee	Green	£1.0m	Up to 2 years

.This Authority will seek further advice on the appropriateness and associated risks with investments in these categories.

2. Maturities in excess of 1 year

Investment	Minimum Credit Criteria	Maximum Investment	Maximum maturity period
Term deposits – local authorities	N/A	£1.0m	Up to 2 Years
Term deposits – banks and building societies	Purple	£1.0m	Up to 2 Years

APPROVED COUNTRIES FOR INVESTMENTS

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- Hong Kong
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- Qatar
- U.K.

AA-

- Belgium

TREASURY MANAGEMENT SCHEME OF DELEGATION

1. Full Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

2. Policy and Resources Committee

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

3. Overview and Scrutiny Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.

UK. GDP growth rates in 2013, 2014 and 2015 of 2.2%, 2.9% and 1.8% were some of the strongest rates among the G7 countries. Growth is expected to have strengthened in 2016 with the first three quarters coming in respectively at +0.4%, +0.7% and +0.5%. The latest Bank of England forecast for growth in 2016 as a whole is +2.2%. The figure for quarter 3 was a pleasant surprise which confounded the downbeat forecast by the Bank of England in August of only +0.1%, (subsequently revised up in September, but only to +0.2%). During most of 2015 and the first half of 2016, the economy had faced headwinds for exporters from the appreciation of sterling against the Euro, and weak growth in the EU, China and emerging markets, and from the dampening effect of the Government's continuing austerity programme.

The referendum vote for Brexit in June 2016 delivered an immediate shock fall in confidence indicators and business surveys at the beginning of August, which were interpreted by the Bank of England in its August Inflation Report as pointing to an impending sharp slowdown in the economy. However, the following monthly surveys in September showed an equally sharp recovery in confidence and business surveys so that it is generally expected that the economy will post reasonably strong growth numbers through the second half of 2016 and also in 2017, albeit at a slower pace than in the first half of 2016.

The Monetary Policy Committee, (MPC), meeting of 4th August was therefore dominated by countering this expected sharp slowdown and resulted in a package of measures that included a cut in Bank Rate from 0.50% to 0.25%, a renewal of quantitative easing, with £70bn made available for purchases of gilts and corporate bonds, and a £100bn tranche of cheap borrowing being made available for banks to use to lend to businesses and individuals.

The MPC meeting of 3 November left Bank Rate unchanged at 0.25% and other monetary policy measures also remained unchanged. This was in line with market expectations, but a major change from the previous quarterly Inflation Report MPC meeting of 4 August, which had given a strong steer, in its forward guidance, that it was likely to cut Bank Rate again, probably by the end of the year if economic data turned out as forecast by the Bank. The MPC meeting of 15 December also left Bank Rate and other measures unchanged.

The latest MPC decision included a forward view that Bank Rate could go either up or down depending on how economic data evolves in the coming months. Our central view remains that Bank Rate will remain unchanged at 0.25% until the first increase to 0.50% in quarter 2 2019 (unchanged from our previous forecast). However, we would not, as yet, discount the risk of a cut in Bank Rate if economic growth were to take a significant dip downwards, though we think this is unlikely. We would also point out that forecasting as far ahead as mid 2019 is highly fraught as there are many potential economic headwinds which could blow the UK economy one way or the other as well as political developments in the UK, (especially over the terms of Brexit), EU, US and beyond, which could have a major impact on our forecasts.

The pace of Bank Rate increases in our forecasts has been slightly increased beyond the three year time horizon to reflect higher inflation expectations.

The August quarterly Inflation Report was based on a pessimistic forecast of near to zero GDP growth in quarter 3 i.e. a sharp slowdown in growth from +0.7% in quarter 2, in reaction to the shock of the result of the referendum in June. However, **consumers** have very much stayed in a 'business as usual' mode and there has been no sharp downturn in spending; it is consumer expenditure that underpins the services sector which comprises about 75% of UK GDP. After a fairly flat three months leading up to October, retail sales in October surged at the strongest rate since September 2015 and were again strong in November. In

addition, the GfK consumer confidence index recovered quite strongly to -3 in October after an initial sharp plunge in July to -12 in reaction to the referendum result. However, in November it fell to -8 indicating a return to pessimism about future prospects among consumers, probably based mainly around concerns about rising inflation eroding purchasing power.

Bank of England GDP forecasts in the November quarterly Inflation Report were as follows, (August forecasts in brackets) - 2016 +2.2%, (+2.0%); 2017 1.4%, (+0.8%); 2018 +1.5%, (+1.8%). There has, therefore, been a sharp increase in the forecast for 2017, a marginal increase in 2016 and a small decline in growth, now being delayed until 2018, as a result of the impact of Brexit.

Capital Economics' GDP forecasts are as follows: 2016 +2.0%; 2017 +1.5%; 2018 +2.5%. They feel that pessimism is still being overdone by the Bank and Brexit will not have as big an effect as initially feared by some commentators.

The Chancellor has said he will do 'whatever is needed' i.e. to **promote growth**; there are two main options he can follow – fiscal policy e.g. cut taxes, increase investment allowances for businesses, and/or increase government expenditure on infrastructure, housing etc. This will mean that the PSBR deficit elimination timetable will need to slip further into the future as promoting growth, (and ultimately boosting tax revenues in the longer term), will be a more urgent priority. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting to boost economic growth and suggested that the Government would need to help growth e.g. by increasing investment expenditure and by using fiscal policy tools. The newly appointed Chancellor, Phillip Hammond, announced, in the aftermath of the referendum result and the formation of a new Conservative cabinet, that the target of achieving a budget surplus in 2020 would be eased in the Autumn Statement on 23 November. This was duly confirmed in the Statement which also included some increases in infrastructure spending.

The other key factor in forecasts for Bank Rate is **inflation** where the MPC aims for a target for CPI of 2.0%. The November Inflation Report included an increase in the peak forecast for inflation from 2.3% to 2.7% during 2017; (Capital Economics are forecasting a peak of just under 3% in 2018). This increase was largely due to the effect of the sharp fall in the value of sterling since the referendum, although during November, sterling has recovered some of this fall to end up 15% down against the dollar, and 8% down against the euro (as at the MPC meeting date – 15.12.16). This depreciation will feed through into a sharp increase in the cost of imports and materials used in production in the UK. However, the MPC is expected to look through the acceleration in inflation caused by external, (outside of the UK), influences, although it has given a clear warning that if wage inflation were to rise significantly as a result of these cost pressures on consumers, then they would take action to raise Bank Rate.

What is clear is that **consumer disposable income** will come under pressure, as the latest employers' survey is forecasting median pay rises for the year ahead of only 1.1% at a time when inflation will be rising significantly higher than this. The CPI figure has been on an upward trend in 2016 and reached 1.2% in November. However, prices paid by factories for inputs rose to 13.2% though producer output prices were still lagging behind at 2.3% and core inflation was 1.4%, confirming the likely future upwards path.

Gilt yields, and consequently PWLB rates, have risen sharply since hitting a low point in mid-August. There has also been huge volatility during 2016 as a whole. The year started

with 10 year gilt yields at 1.88%, fell to a low point of 0.53% on 12 August, and hit a new peak on the way up again of 1.55% on 15 November. The rebound since August reflects the initial combination of the yield-depressing effect of the MPC's new round of quantitative easing on 4 August, together with expectations of a sharp downturn in expectations for growth and inflation as per the pessimistic Bank of England Inflation Report forecast, followed by a sharp rise in growth expectations since August when subsequent business surveys, and GDP growth in quarter 3 at +0.5% q/q, confounded the pessimism. Inflation expectations also rose sharply as a result of the continuing fall in the value of sterling.

Employment had been growing steadily during 2016 but encountered a first fall in over a year, of 6,000, over the three months to October. The latest employment data in December, (for November), was distinctly weak with an increase in unemployment benefits claimants of 2,400 in November and of 13,300 in October. **House prices** have been rising during 2016 at a modest pace but the pace of increase has slowed since the referendum; a downturn in prices could dampen consumer confidence and expenditure.

USA. The American economy had a patchy 2015 with sharp swings in the quarterly **growth rate** leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 at +0.8%, (on an annualised basis), and quarter 2 at 1.4% left average growth for the first half at a weak 1.1%. However, quarter 3 at 3.2% signalled a rebound to strong growth. The Fed. embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene, and then the Brexit vote, have caused a delay in the timing of the second increase of 0.25% which came, as expected, in December 2016 to a range of 0.50% to 0.75%. Overall, despite some data setbacks, the US is still, probably, the best positioned of the major world economies to make solid progress towards a combination of strong growth, full employment and rising inflation: this is going to require the central bank to take action to raise rates so as to make progress towards normalisation of monetary policy, albeit at lower central rates than prevailed before the 2008 crisis. The Fed. therefore also indicated that it expected three further increases of 0.25% in 2017 to deal with rising inflationary pressures.

The result of the **presidential election** in November is expected to lead to a strengthening of US growth if Trump's election promise of a major increase in expenditure on infrastructure is implemented. This policy is also likely to strengthen inflation pressures as the economy is already working at near full capacity. In addition, the unemployment rate is at a low point verging on what is normally classified as being full employment. However, the US does have a substantial amount of hidden unemployment in terms of an unusually large, (for a developed economy), percentage of the working population not actively seeking employment.

Trump's election has had a profound effect on the **bond market and bond yields** rose sharply in the week after his election. Time will tell if this is a reasonable assessment of his election promises to cut taxes at the same time as boosting expenditure. This could lead to a sharp rise in total debt issuance from the current level of around 72% of GDP towards 100% during his term in office. However, although the Republicans now have a monopoly of power for the first time since the 1920s, in having a President and a majority in both Congress and the Senate, there is by no means any certainty that the politicians and advisers he has been appointing to his team, and both houses, will implement the more extreme policies that Trump outlined during his election campaign. Indeed, Trump may even rein back on some of those policies himself.

In the first week since the US election, there was a major shift in **investor sentiment** away from bonds to equities, especially in the US. However, gilt yields in the UK and bond yields in the EU have also been dragged higher. Some commentators are saying that this rise has

been an overreaction to the US election result which could be reversed. Other commentators take the view that this could well be the start of the long expected eventual unwinding of bond prices propelled upwards to unrealistically high levels, (and conversely bond yields pushed down), by the artificial and temporary power of quantitative easing.

EZ. In the Eurozone, the **ECB** commenced, in March 2015, its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month. This was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March 2016 meetings it progressively cut its deposit facility rate to reach - 0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise significantly from low levels towards the target of 2%. Consequently, at its December meeting it extended its asset purchases programme by continuing purchases at the current monthly pace of €80 billion until the end of March 2017, but then continuing at a pace of €60 billion until the end of December 2017, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim. It also stated that if, in the meantime, the outlook were to become less favourable or if financial conditions became inconsistent with further progress towards a sustained adjustment of the path of inflation, the Governing Council intended to increase the programme in terms of size and/or duration.

EZ GDP growth in the first three quarters of 2016 has been 0.5%, +0.3% and +0.3%, (+1.7% y/y). Forward indications are that economic growth in the EU is likely to continue at moderate levels. This has added to comments from many forecasters that those central banks in countries around the world which are currently struggling to combat low growth, are running out of ammunition to stimulate growth and to boost inflation. Central banks have also been stressing that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand and economic growth in their economies.

There are also significant specific political and other risks within the EZ: -

- **Greece** continues to cause major stress in the EU due to its tardiness and reluctance in implementing key reforms required by the EU to make the country more efficient and to make significant progress towards the country being able to pay its way – and before the EU is prepared to agree to release further bail out funds.
- **Spain** has had two inconclusive general elections in 2015 and 2016, both of which failed to produce a workable government with a majority of the 350 seats. At the eleventh hour on 31 October, before it would have become compulsory to call a third general election, the party with the biggest bloc of seats (137), was given a majority confidence vote to form a government. This is potentially a highly unstable situation, particularly given the need to deal with an EU demand for implementation of a package of austerity cuts which will be highly unpopular.
- The under capitalisation of **Italian banks** poses a major risk. Some **German banks** are also undercapitalised, especially Deutsche Bank, which is under threat of major financial penalties from regulatory authorities that will further weaken its capitalisation. What is clear is that national governments are forbidden by EU rules from providing state aid to bail out those banks that are at risk, while, at the same time, those banks are unable realistically to borrow additional capital in

financial markets due to their vulnerable financial state. However, they are also 'too big, and too important to their national economies, to be allowed to fail'.

- **4 December Italian constitutional referendum** on reforming the Senate and reducing its powers; this was also a confidence vote on Prime Minister Renzi who has resigned on losing the referendum. However, there has been remarkably little fall out from this result which probably indicates that the financial markets had already fully priced it in. A rejection of these proposals is likely to inhibit significant progress in the near future to fundamental political and economic reform which is urgently needed to deal with Italy's core problems, especially low growth and a very high debt to GDP ratio of 135%. These reforms were also intended to give Italy more stable government as no western European country has had such a multiplicity of governments since the Second World War as Italy, due to the equal split of power between the two chambers of the Parliament which are both voted in by the Italian electorate but by using different voting systems. It is currently unclear what the political, and other, repercussions are from this result.
- **Dutch general election 15.3.17**; a far right party is currently polling neck and neck with the incumbent ruling party. In addition, anti-big business and anti-EU activists have already collected two thirds of the 300,000 signatures required to force a referendum to be taken on approving the EU – Canada free trade pact. This could delay the pact until a referendum in 2018 which would require unanimous approval by all EU governments before it can be finalised. In April 2016, Dutch voters rejected by 61.1% an EU – Ukraine cooperation pact under the same referendum law. Dutch activists are concerned by the lack of democracy in the institutions of the EU.
- **French presidential election**; first round 13 April; second round 7 May 2017.
- **French National Assembly election June 2017.**
- **German Federal election August – 22 October 2017.** This could be affected by significant shifts in voter intentions as a result of terrorist attacks, dealing with a huge influx of immigrants and a rise in anti EU sentiment.
- The core EU, (note, not just the Eurozone currency area), principle of **free movement of people** within the EU is a growing issue leading to major stress and tension between EU states, especially with the Visegrad bloc of former communist states.

Given the number and type of challenges the EU faces in the next eighteen months, there is an identifiable risk for the EU project to be called into fundamental question. The risk of an electoral revolt against the EU establishment has gained traction after the shock results of the UK referendum and the US Presidential election. But it remains to be seen whether any shift in sentiment will gain sufficient traction to produce any further shocks within the EU.

Asia. Economic growth in **China** has been slowing down and this, in turn, has been denting economic growth in emerging market countries dependent on exporting raw materials to China. Medium term risks have been increasing in China e.g. a dangerous build up in the level of credit compared to the size of GDP, plus there is a need to address a major over supply of housing and surplus industrial capacity, which both need to be eliminated. This needs to be combined with a rebalancing of the economy from investment expenditure to consumer spending. However, the central bank has a track record of supporting growth through various monetary policy measures, though these further stimulate the growth of credit risks and so increase the existing major imbalances within the economy.

Economic growth in **Japan** is still patchy, at best, and skirting with deflation, despite successive rounds of huge monetary stimulus and massive fiscal action to promote consumer spending. The government is also making little progress on fundamental reforms of the economy.

Emerging countries. There have been major concerns around the vulnerability of some emerging countries exposed to the downturn in demand for commodities from China or to competition from the increase in supply of American shale oil and gas reaching world markets. The ending of sanctions on Iran has also brought a further significant increase in oil supplies into the world markets. While these concerns have subsided during 2016, if interest rates in the USA do rise substantially over the next few years, (and this could also be accompanied by a rise in the value of the dollar in exchange markets), this could cause significant problems for those emerging countries with large amounts of debt denominated in dollars. The Bank of International Settlements has recently released a report that \$340bn of emerging market corporate debt will fall due for repayment in the final two months of 2016 and in 2017 – a 40% increase on the figure for the last three years.

Financial markets could also be vulnerable to risks from those emerging countries with major sovereign wealth funds, that are highly exposed to the falls in commodity prices from the levels prevailing before 2015, especially oil, and which, therefore, may have to liquidate substantial amounts of investments in order to cover national budget deficits over the next few years if the price of oil does not return to pre-2015 levels.

Brexit timetable and process

- March 2017: UK government notifies the European Council of its intention to leave under the Treaty on European Union Article 50
- March 2019: two-year negotiation period on the terms of exit. This period can be extended with the agreement of all members i.e. not that likely.
- UK continues as an EU member during this two-year period with access to the single market and tariff free trade between the EU and UK.
- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.
- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK may also exit without any such agreements.
- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.
- On exit from the EU: the UK parliament would repeal the 1972 European Communities Act.
- The UK will then no longer participate in matters reserved for EU members, such as changes to the EU's budget, voting allocations and policies.
- It is possible that some sort of agreement could be reached for a transitional time period for actually implementing Brexit after March 2019 so as to help exporters to adjust in both the EU and in the UK.

INTEREST RATE FORECAST

Capita Asset Services Interest Rate View													
	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank Rate View	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
3 Month LIBID	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.40%	0.50%	0.60%	0.70%	0.80%	0.90%
6 Month LIBID	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.50%	0.60%	0.70%	0.80%	0.90%	1.00%
12 Month LIBID	0.70%	0.70%	0.70%	0.70%	0.70%	0.80%	0.80%	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%
5yr PWLB Rate	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB Rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB Rate	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB Rate	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
Bank Rate													
Capita Asset Services	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
Capital Economics	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.50%
5yr PWLB Rate													
Capita Asset Services	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
Capital Economics	1.60%	1.70%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.70%	2.80%	2.90%	3.00%
10yr PWLB Rate													
Capita Asset Services	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
Capital Economics	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	3.10%	3.20%	3.30%	3.40%
25yr PWLB Rate													
Capita Asset Services	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
Capital Economics	2.95%	3.05%	3.05%	3.15%	3.25%	3.25%	3.35%	3.45%	3.55%	3.65%	3.75%	3.95%	4.05%
50yr PWLB Rate													
Capita Asset Services	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
Capital Economics	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.60%	3.70%	3.80%	3.90%



PART B:	RECOMMENDATIONS TO COUNCIL
REPORT TO:	OVERVIEW AND SCRUTINY COMMITTEE
DATE:	26 JANUARY 2017
REPORT OF THE:	RESOURCES AND ENABLING SERVICES LEAD (s151) PETER JOHNSON
TITLE OF REPORT:	APPOINTMENT OF THE SECTOR LED BODY, PUBLIC SECTOR AUDIT APPOINTMENTS (PSAA), TO APPOINT EXTERNAL AUDIT SERVICES FOR RYEDALE DISTRICT COUNCIL FROM 1 APRIL 2018
WARDS AFFECTED:	ALL

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

- 1.1 To update Members on the appointment of Public Sector Appointments Ltd (PSAA) as the approved sector-led body to procure future external audit contracts for local government.

2.0 RECOMMENDATIONS

Members recommended to Council that:

- 2.1 Ryedale District Council accepts Public Sector Appointments Ltd (PSAA) invitation to 'opt in' to the sector led option for the procurement of external auditors for a maximum of five financial years commencing 1 April 2018.
- 2.2 Delegation be given to the Resources and Enabling Services Lead (s151 officer) to undertake the necessary steps to ensure that the appointment of PSAA is made by 9 March 2017.

3.0 REASON FOR RECOMMENDATIONS

- 3.1 The Council must have appropriate External Auditors. Officers believe that the most efficient and cost effective appointment process is through a sector-led body.
- 3.2 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by a meeting of the Council (meeting as a whole).

4.0 SIGNIFICANT RISKS

- 4.1 The principal risks are that the Council fails to appoint an auditor in accordance with the new frameworks or does not achieve value for money. These risks are considered best mitigated by opting in to the sector led approach through PSAA.
- 4.2 There is a risk that the current level of fees could increase when the current contracts end in 2018. Opting in to a national scheme provides maximum opportunity to ensure that fees are as low as possible.

5.0 POLICY CONTEXT AND CONSULTATION

- 5.1 External Audit is part of the Governance framework of the Council which assists with the assurances around financial resilience.

REPORT

6.0 REPORT DETAILS

- 6.1 In August 2010, the Secretary of State for Communities and Local Government announced plans for new arrangements to audit local public bodies in England. The Government consulted widely and worked with a range of partners to develop and refine its proposals. The Local Audit and Accountability Act 2014 which received Royal Assent in January 2014 led to the abolition of the existing regime which included the Audit Commission.
- 6.2 The closure of the Audit Commission on 31 March 2015 heralded the start of the process of devolving the responsibility for making external audit appointments to all local public bodies including all classes of local authorities, police, fire and rescue bodies (where separate), waste disposal, transport authorities and executives, together with relevant NHS bodies.
- 6.3 Initially transitional arrangements were put in place until 31 March 2017. PSAA, an independent company established by the LGA, was set up to manage the existing appointments.
- 6.4 The Council is currently audited by KPMG LLP who were appointed as the Council's auditors from 1st April 2015.
- 6.5 The transitional arrangements were due to expire following completion of the 2016/17 audit of accounts.. On 5 October 2015 the Secretary of State notified his intention to extend the transitional arrangements, larger local government bodies will remain on current appointments contracts until the completion of the 2017/18 audits. This means new appointments will need to be made by 31 December 2017.
- 6.6 PSAA responded to the DCLG's market enquiry for bodies interested in becoming the sector led appointing person and were specified as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015 by the Secretary of State for Communities and Local Government in July 2016.

- 6.7 The consensus from colleagues within North Yorkshire is that a sector led body should offer the most cost effective route to procurement. A previous report to a meeting of Audit Committee in July 2016 apprised members of the position and options.
- 6.8 Over recent years the Council has benefitted from a reduction in fees of around 50% compared to fees in 2011/12. The Council's current external audit fees are £42K per annum
- 6.9 The proposed fees for subsequent years cannot be known until the procurement process has been completed, as the costs will depend on the proposals from the audit firms.
- 6.10 The scope of the audit will still be specified nationally, the National Audit Office is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council's audit must follow. Eligible audit firms need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council.
- 6.11 Currently there are only nine providers that are eligible to audit local authorities and other relevant bodies; all of these being firms with a national presence.

The Invitation

- 6.12 PSAA has now formally invited Ryedale District Council to opt in. Details relating to PSAA's invitation prospectus are provided at Appendix A to this report.
- 6.13 In summary the national opt in scheme provides the following:
- The appointment of a suitably qualified audit firm for each of the financial years commencing 1 April 2018;
 - Appointing the same auditor to the other opted in bodies that are involved in formal collaboration or joint working initiatives to the extent that this is possible;
 - Managing the procurement process to ensure that both quality and price criteria are satisfied. PSAA will seek views from the sector to help inform its detailed strategy;
 - Ensuring suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise;
 - Minimising the scheme management costs and returning any surpluses to members;
 - Consulting with authorities on auditor appointments, giving the Council the opportunity to influence which auditor is appointed;
 - Consulting with authorities on the scale of audit fees and ensuring that these reflect scale, complexity and audit risk; and
 - Ongoing contract and performance management of the contracts once these

have been let.

- 6.14 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by a meeting of the Council (meeting as a whole). The Council then needs to formally respond to PSAA's invitation in the form specified by PSAA by 9 March 2017. A copy of this invitation letter is attached at Appendix B.
- 6.15 PSAA will commence the formal procurement process in early 2017 in accordance with the timetable included within their offer letter.

7.0 IMPLICATIONS

- 7.1 The following implications have been identified:

a) Financial

PSAA costs for setting up and managing the scheme will need to be covered by audit fees. PSAA are intending to fund an element of the costs of establishing the scheme, including the costs of procuring audit contracts, from local government's share of its current deferred income. PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk, most likely as evidenced by audit fees for 2016/17. Pooling means that everyone in the scheme will benefit from the most competitive prices. Fees will reflect the number of scheme participants - the greater the level of participation, the better the value represented by our scale fees.

There is a risk that the current level of fees could increase when the current contracts end in 2018. Until the procurement exercise is completed it is not possible to state what if any additional resource will be required for audit fees from 2018/19 onwards.

b) Legal

Section 7 of the Local Audit and Accountability Act 2014 requires a relevant Council to appoint a local auditor to its accounts for a financial year not later than 31 December in the preceding year. Section 8 governs the procedure for appointment including that the Council must consult and take advice of its auditor panel on selection and appointment of a local auditor.

Section 12 makes provision for the failure to appoint a local auditor: the Council must immediately inform the Secretary of State, who may direct the Council to appoint the auditor named in the direction or appoint a local auditor on behalf of the Council.

Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person. In July 2016 the Secretary of State specified PSAA as the appointing person.

c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder)

There are no additional implications within this report.

Peter Johnson
Resources and Enabling Services Lead (s151)

Author: Peter Johnson
Telephone No: 01653 600666 ext: 392
E-Mail Address: peter.johnson@ryedale.gov.uk


Background Papers:
[July Audit Committee - Options for External Audit Procurement - Agenda Item 12](#)

This page is intentionally left blank

Agenda Item 9



Developing the option
of a national scheme for
local auditor appointments



“The LGA has worked hard to secure the option for local government to appoint auditors through a dedicated sector-led national procurement body. I am sure that this will deliver significant financial benefits to those who opt in.”

– Lord Porter CBE, Chairman,
Local Government Association

Over the next few months all principal authorities will need to decide how their auditors will be appointed in the future. They may make the appointment themselves, or in conjunction with other bodies. Or they can take advantage of a national collective scheme which is designed to offer them a further choice. Choosing the national scheme should pay dividends in quality, in cost, in responsiveness and in convenience.

Public Sector Audit Appointments Ltd (PSAA) is leading the development of this national option. PSAA is a not-for-profit company which already administers the current audit contracts. It has been designated by the Department for Communities & Local Government (DCLG) to operate a collective scheme for auditor appointments for principal authorities (other than NHS bodies) in England. It is currently designing the scheme to reflect the sector's needs and views.

The Local Government Association (LGA) is strongly supportive of this ambition, and 200+ authorities have already signalled their positive interest. This is an opportunity for local government, fire, police and other bodies to act in their own and their communities' best interests.

We hope you will be interested in the national scheme and its development. We would be happy to engage with you to hear your views – please contact us at **generalenquiries@psaa.co.uk**

You will also find some questions at the end of this booklet which cover areas in which we would particularly welcome your feedback.

Audit does matter

High quality independent audit is one of the cornerstones of public accountability. It gives assurance that taxpayers' money has been well managed and properly expended. It helps to inspire trust and confidence in the organisations and people responsible for managing public money.

Imminent changes to the arrangements for appointing the auditors of local public bodies are therefore very important. Following the abolition of the Audit Commission, local bodies will soon begin to make their own decisions about how and by whom their auditors are appointed. A list of the local government bodies affected can be found at the end of this booklet.

The Local Government Association (LGA) has played a leadership role in anticipating these changes and influencing the range of options available to local bodies. In particular, it has lobbied to ensure that, irrespective of size, scale, responsibilities or location, principal local government bodies can, if they wish, subscribe to a specially authorised national scheme which will take full responsibility for local auditor appointments which offer a high quality professional service and value for money.


The LGA supported PSAA's successful application to the Department for Communities & Local Government (DCLG) to be appointed to deliver and manage this scheme.

PSAA is well placed to award and manage audit contracts, and appoint local auditors under a national scheme

PSAA is an independent, not-for-profit company limited by guarantee and established by the LGA. It already carries out a number of functions in relation to auditor appointments under powers delegated by the Secretary of State for Communities & Local Government. However, those powers are time-limited and will cease when current contracts with audit firms expire with the completion of the 2017/18 audits for local government bodies, and the completion of the 2016/17 audits for NHS bodies and smaller bodies.

The expiry of contracts will also mark the end of the current mandatory regime for auditor appointments. Thereafter, local bodies will exercise choice about whether they opt in to the authorised national scheme, or whether they make other arrangements to appoint their own auditors.

PSAA has been selected to be the trusted operator of the national scheme, formally specified to undertake this important role by the Secretary of State. The company is staffed by a team with significant experience in appointing auditors, managing contracts with audit firms and setting and determining audit fees. We intend to put in place an advisory group, drawn from the sector, to give us ready access to your views on the design and operation of the scheme. We are confident that we can create a scheme which delivers quality-assured audit services to every participating local body at a price which represents outstanding value for money.



“Many district councils will be very aware of the resource implications of making their own appointment. Joining a well-designed national scheme has significant attractions.”

– Norma Atlay, President,
Society of District Council Treasurers

“Police bodies have expressed very strong interest in a national scheme led by PSAA. Appointing the same auditor to both the PCC and the Chief Constable in any area must be the best way to maximise efficiency.”

– Sean Nolan, President,
Police and Crime Commissioners
Treasurers’ Society (PACCTS)

The national scheme can work for you

We believe that the national scheme can be an excellent option for all local bodies. Early indications are that many bodies agree - in a recent LGA survey more than 200 have expressed an interest in joining the scheme.

We plan to run the scheme in a way that will save time and resources for local bodies - time and resources which can be deployed to address other pressing priorities. Bodies can avoid the necessity to establish an auditor panel (required by the Local Audit & Accountability Act, 2014) and the need to manage their own auditor procurement. The scheme will take away those headaches and, assuming a high level of participation, be able to attract the best audit suppliers and command highly competitive prices.

The scope of public audit is wider than for private sector organisations. For example, it involves forming a conclusion on the body's arrangements for securing value for money, dealing with electors' enquiries and objections, and in some circumstances issuing public interest reports. PSAA will ensure that the auditors which it appoints are the most competent to carry out these functions.

Auditors must be independent of the bodies they audit, to enable them to them to carry out their work with objectivity and credibility, and in a way that commands public confidence. PSAA plans to take great care to ensure that every auditor appointment passes this test. It will also monitor any significant proposals, above an agreed threshold, for auditors to carry out consultancy or other non-audit work to ensure that these do not undermine independence and public confidence.

The scheme will also endeavour to appoint the same auditors to bodies which are involved in formal collaboration/joint working initiatives or within combined authority areas, if the parties consider that a common auditor will enhance efficiency and value for money.

PSAA will ensure high quality audits

We will only contract with firms which have a proven track record in undertaking public audit work. In accordance with the 2014 Act, firms must be registered with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of their work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC). Current indications are that fewer than ten large firms will register meaning that small local firms will not be eligible to be appointed to local public audit roles.

PSAA will ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any concerns are detected at an early stage and addressed effectively in the new regime. The company will take a close interest in feedback from audited bodies and in the rigour and effectiveness of firms' own quality assurance arrangements, recognising that these represent some of the earliest and most important safety nets for identifying and remedying any problems arising. We will liaise with the National Audit Office (NAO) to help ensure that guidance to auditors is updated when necessary.

We will include obligations in relation to maintaining and continuously improving quality in our contract terms and quality criteria in our tender evaluation method.

PSAA will secure highly competitive prices

A top priority must be to seek to obtain the best possible prices for local audit services. PSAA's objective will be to make independent auditor appointments at the most competitive aggregate rate achievable.

Our current thinking is that the best prices will be obtained by letting three year contracts, with an option to extend to five years, to a relatively small number of appropriately registered firms in two or three large contract areas nationally. The value of each contract will depend on the prices bid, with the firms offering the best prices being awarded larger amounts of work. By having contracts with a number of firms we will be able to ensure independence and avoid dominance of the market by one or two firms.

Correspondingly, at this stage our thinking is to invite bodies to opt into the scheme for an initial term of three to five years.

The procurement strategy will need to prioritise the importance of demonstrably independent appointments, in terms of both the audit firm appointed to each audited body and the procurement and appointment processes used. This will require specific safeguards in the design of the procurement and appointment arrangements.

“Early audit planning is a vital element of a timely audit. We need the auditors to be available and ready to go right away at the critical points in the final accounts process.”

– Steven Mair, City Treasurer,
Westminster City Council

“In forming a view on VFM arrangements it is essential that auditors have an awareness of the significant challenges and changes which the service is grappling with.”

– Charles Kerr, Chair,
Fire Finance Network

PSAA will establish a fair scale of fees

Audit fees must ultimately be met by individual audited bodies. PSAA will ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising PSAA's own costs. The changes to our role and functions will enable us to run the new scheme with a smaller team of staff. PSAA is a not-for-profit company and any surplus funds will be returned to scheme members.

PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk. Pooling means that everyone within the scheme will benefit from the most competitive prices. Current scale fees are set on this basis. Responses from audited bodies to recent fee consultations have been positive.

PSAA will continue to consult bodies in connection with any proposals to establish or vary the scale of fees. However, we will not be able to consult on our proposed scale of fees until the initial major procurement has been completed and contracts with audit firms have been let. Fees will also reflect the number of scheme participants - the greater the level of participation, the better the value represented by our scale of fees. We will be looking for principal bodies to give firm commitments to join the scheme during Autumn 2016.

The scheme offers multiple benefits for participating bodies

We believe that PSAA can deliver a national scheme which offers multiple benefits to the bodies which take up the opportunity to collaborate across the sector by opting into scheme membership.

Benefits include:

- assured appointment of a qualified, registered, independent auditor
- appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives or combined authorities, if the parties believe that it will enhance efficiency and value for money
- on-going management of independence issues
- securing highly competitive prices from audit firms
- minimising scheme overhead costs
- savings from one major procurement as opposed to a multiplicity of small procurements
- distribution of surpluses to participating bodies
- a scale of fees which reflects size, complexity and audit risk
- a strong focus on audit quality to help develop and maintain the market for the sector
- avoiding the necessity for individual bodies to establish an auditor panel and to undertake an auditor procurement
- enabling time and resources to be deployed on other pressing priorities
- setting the benchmark standard for audit arrangements for the whole of the sector

We understand the balance required between ensuring independence and being responsive, and will continually engage with stakeholders to ensure we achieve it.

How can you help?

We are keen to receive feedback from local bodies concerning our plans for the future. Please let us have your views and let us know if a national scheme operated by PSAA would be right for your organisation.

In particular we would welcome your views on the following questions:

1. Is PSAA right to place emphasis on both quality and price as the essential pre-requisites for successful auditor appointments?
2. Is three to five years an appropriate term for initial contracts and for bodies to sign up to scheme membership?
3. Are PSAA's plans for a scale of fees which pools scheme costs and reflects size, complexity and audit risk appropriate? Are there any alternative approaches which would be likely to command the support of the sector?
4. Are the benefits of joining the national scheme, as outlined here, sufficiently attractive? Which specific benefits are most valuable to local bodies? Are there others you would like included?
5. What are the key issues which will influence your decisions about scheme membership?
6. What is the best way of us continuing our engagement with you on these issues?

Please reply to: generalenquiries@psaa.co.uk

The following bodies will be eligible to join the proposed national scheme for appointment of auditors to local bodies:

- county councils in England
- district councils
- London borough councils
- combined authorities
- passenger transport executives
- police and crime commissioners for a police area in England
- chief constables for an area in England
- national park authorities for a national park in England
- conservation boards
- fire and rescue authorities in England
- waste authorities
- the Greater London Authority and its functional bodies.

BOARD MEMBERS

Steve Freer (Chairman), former Chief Executive CIPFA

Caroline Gardner, Auditor General Scotland

Clive Grace, former Deputy Auditor General Wales

Stephen Sellers, Solicitor, Gowling WLG (UK) LLP

CHIEF OFFICER

Jon Hayes, former Audit Commission Associate Controller

“Maintaining audit quality is critically important. We need experienced audit teams who really understand our issues.”

– Andrew Burns, Director of
Finance and Resources,
Staffordshire County Council

PSAA Ltd
3rd Floor, Local Government House
Smith Square
London SW1P 3HZ

www.psaa.co.uk

Page 54



Public Sector
Audit Appointments

27 October 2016

Email: appointingperson@psaa.co.uk

Janet Waggott
Ryedale District Council
Ryedale House
Malton North Yorkshire YO17 7HH

Copied to: Peter Johnson, Director Of Finance, Ryedale District Council
Anthony Winship, Head of Legal Services and Monitoring officer, Ryedale
District Council

Dear Ms Waggott

Invitation to opt into the national scheme for auditor appointments

As you know the external auditor for the audit of the accounts for 2018/19 has to be appointed before the end of 2017. That may seem a long way away, but as there is now a choice about how to make that appointment, a decision on your authority's approach will be needed soon.

We are pleased that the Secretary of State has expressed his confidence in us by giving us the role of appointing local auditors under a national scheme. This is one choice open to your authority. We issued a prospectus about the scheme in July 2016, available to download on the [appointing person](#) page of our website, with other information you may find helpful.

The timetable we have outlined for appointing auditors under the scheme means we now need to issue a formal invitation to opt into these arrangements. The covering email provides the formal invitation, along with a form of acceptance of our invitation for you to use if your authority decides to join the national scheme. We believe the case for doing so is compelling. To help with your decision we have prepared the additional information attached to this letter.

I need to highlight two things:

- we need to receive your formal acceptance of this invitation by 9 March 2017; and
- the relevant regulations require that, except for a body that is a corporation sole (a police and crime commissioner), the decision to accept the invitation and to opt in needs to be made by the members of the authority meeting as a whole. We appreciate this will need to be built into your decision making timetable.

If you have any other questions not covered by our information, do not hesitate to contact us by email at appointingperson@psaa.co.uk.

Yours sincerely



Jon Hayes, Chief Officer

Appointing an external auditor

Information on the national scheme

Public Sector Audit Appointments Limited (PSAA)

We are a not-for-profit company established by the Local Government Association (LGA). We administer the current audit contracts, let by the Audit Commission before it closed.

We have the support of the LGA, which has worked to secure the option for principal local government and police bodies to appoint auditors through a dedicated sector-led national procurement body. We have established an advisory panel, drawn from representative groups of local government and police bodies, to give access to your views on the design and operation of the scheme.

The national scheme for appointing local auditors

We have been specified by the Secretary of State for Communities and Local Government as the appointing person for principal local government bodies. This means that we will make auditor appointments to principal local government bodies that choose to opt into the national appointment arrangements we will operate for audits of the accounts from 2018/19. These arrangements are sometimes described as the 'sector-led body' option, and our thinking for this scheme was set out in a prospectus circulated to you in July. The prospectus is available on the [appointing person](#) page of our website.

We will appoint an auditor for all opted-in authorities for each of the five financial years beginning from 1 April 2018, unless the Secretary of State chooses to terminate our role as the appointing person beforehand. He or she may only do so after first consulting opted-in authorities and the LGA.

What the appointing person scheme will offer

We are committed to making sure the national scheme will be an excellent option for auditor appointments for you.

We intend to run the scheme in a way that will save time and resources for local government bodies. We think that a collective procurement, which we will carry out on behalf of all opted-in authorities, will enable us to secure the best prices, keeping the cost of audit as low as possible for the bodies who choose to opt in, without compromising on audit quality.

Our current role means we have a unique experience and understanding of auditor procurement and the local public audit market.

Using the scheme will avoid the need for you to:

- establish an audit panel with independent members;
- manage your own auditor procurement and cover its costs;
- monitor the independence of your appointed auditor for the duration of the appointment;
- deal with the replacement of any auditor if required; and
- manage the contract with your auditor.

Our scheme will endeavour to appoint the same auditors to other opted-in bodies that are involved in formal collaboration or joint working initiatives, if you consider that a common auditor will enhance efficiency and value for money.

We will also try to be flexible about changing your auditor during the five-year appointing period if there is good reason, for example where new joint working arrangements are put in place.

Securing a high level of acceptances to the opt-in invitation will provide the best opportunity for us to achieve the most competitive prices from audit firms. The LGA has previously sought expressions of interest in the appointing person arrangements, and received positive responses from over 270 relevant authorities. We ultimately hope to achieve participation from the vast majority of eligible authorities.

High quality audits

The Local Audit and Accountability Act 2014 provides that firms must be registered as local public auditors with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of registered firms' work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC), under arrangements set out in the Act.

We will:

- only contract with audit firms that have a proven track record in undertaking public audit work;
- include obligations in relation to maintaining and continuously improving quality in our contract terms and in the quality criteria in our tender evaluation;
- ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any quality concerns are detected at an early stage; and
- take a close interest in your feedback and in the rigour and effectiveness of firms' own quality assurance arrangements.

We will also liaise with the National Audit Office to help ensure that guidance to auditors is updated as necessary.

Procurement strategy

In developing our procurement strategy for the contracts with audit firms, we will have input from the advisory panel we have established. The panel will assist PSAA in developing arrangements for the national scheme, provide feedback to us on proposals as they develop, and helping us maintain effective channels of communication. We think it is particularly important to understand your preferences and priorities, to ensure we develop a strategy that reflects your needs within the constraints set out in legislation and in professional requirements.

In order to secure the best prices we are minded to let audit contracts:

- for 5 years;
- in 2 large contract areas nationally, with 3 or 4 contract lots per area, depending on the number of bodies that opt in; and
- to a number of firms in each contract area to help us manage independence issues.

The value of each contract will depend on the prices bid, with the firms offering the best value being awarded larger amounts of work. By having contracts with a number of firms, we will be able to manage issues of independence and avoid dominance of the market by one or two firms. Limiting the national volume of work available to any one firm will encourage competition and ensure the plurality of provision.

Auditor appointments and independence

Auditors must be independent of the bodies they audit, to enable them to carry out their work with objectivity and credibility, and in a way that commands public confidence.

We plan to take great care to ensure that every auditor appointment passes this test. We will also monitor significant proposals for auditors to carry out consultancy or other non-audit work, to protect the independence of auditor appointments.

We will consult you on the appointment of your auditor, most likely from September 2017. To make the most effective allocation of appointments, it will help us to know about:

- any potential constraints on the appointment of your auditor because of a lack of independence, for example as a result of consultancy work awarded to a particular firm;
- any joint working or collaboration arrangements that you think should influence the appointment; and
- other local factors you think are relevant to making the appointment.

We will ask you for this information after you have opted in.

Auditor appointments for the audit of the accounts of the 2018/19 financial year must be made by 31 December 2017.

Fee scales

We will ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising our own costs. Any surplus funds will be returned to scheme members under our articles of association and our memorandum of understanding with the Department for Communities and Local Government and the LGA.

Our costs for setting up and managing the scheme will need to be covered by audit fees. We expect our annual operating costs will be lower than our current costs because we expect to employ a smaller team to manage the scheme. We are intending to fund an element of the costs of establishing the scheme, including the costs of procuring audit contracts, from local government's share of our current deferred income. We think this is appropriate because the new scheme will be available to all relevant principal local government bodies.

PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk, most likely as evidenced by audit fees for 2016/17. Pooling means that everyone in the scheme will benefit from the most competitive prices. Fees will reflect the number of scheme participants – the greater the level of participation, the better the value represented by our scale fees.

Scale fees will be determined by the prices achieved in the auditor procurement that PSAA will need to undertake during the early part of 2017. Contracts are likely to be awarded at the end of June 2017, and at this point the overall cost and therefore the level of fees required will be clear. We expect to consult on the proposed scale of fees in autumn 2017 and to publish the fees applicable for 2018/19 in March 2018.

Opting in

The closing date for opting in is 9 March 2017. We have allowed more than the minimum eight week notice period required, because the formal approval process for most eligible bodies, except police and crime commissioners, is a decision made by the members of an authority meeting as a whole.

We will confirm receipt of all opt-in notices. A full list of authorities who opt in will be published on our website. Once we have received an opt-in notice, we will write to you to request information on any joint working arrangements relevant to your auditor appointment, and any potential independence matters that would prevent us appointing a particular firm.

If you decide not to accept the invitation to opt in by the closing date, you may subsequently make a request to opt in, but only after 1 April 2018. The earliest an auditor appointment can be made for authorities that opt in after the closing date is therefore for the audit of the accounts for 2019/20. We are required to consider such requests, and agree to them unless there are reasonable grounds for their refusal.

Timetable

In summary, we expect the timetable for the new arrangements to be:

- | | |
|---|-------------------------|
| • Invitation to opt in issued | 27 October 2016 |
| • Closing date for receipt of notices to opt in | 9 March 2017 |
| • Contract notice published | 20 February 2017 |
| • Award audit contracts | By end of June 2017 |
| • Consult on and make auditor appointments | By end of December 2017 |
| • Consult on and publish scale fees | By end of March 2018 |

Enquiries

We publish frequently asked questions on our [website](#). We are keen to receive feedback from local bodies on our plans. Please email your feedback or questions to: appointingperson@psaa.co.uk.

If you would like to discuss a particular issue with us, please send an email to the above address, and we will make arrangements either to telephone or meet you.

This page is intentionally left blank



KPMG LLP
1 Sovereign Square
Sovereign Street
Leeds LS1 4DA
United Kingdom

Tel +44 (0) 113 231 3000
Fax +44 (0) 113 231 3200
rashpal.khangura@kpmg.co.uk

Private & confidential

Peter Johnson, Finance Manager
Ryedale District Council
Ryedale House
Malton
North Yorkshire
YO17 7HH

Contact Rashpal Khangura
(0)7876 392195

3 January 2017

Dear Peter

**Ryedale District Council - Certification of claims and returns - annual report
2015/16**

Public Sector Audit Appointments requires its external auditors to prepare an annual report on the claims and returns certified for each audited body. This letter is our annual report for the certification work we have undertaken for 2015/16.

In 2015/16 we carried out certification work on only one claim/return, the Housing Benefit Subsidy claim. The certified value of the claim was £12,013,117, and we completed our work and certified the claim on the 17th of November 2016.

Matters arising

Our certification work on Housing Subsidy Benefit claim included:

- agreeing standard rates, such as for allowances and benefit incomes, to the DWP Circular communicating the value of each rate for the year;
- sample testing of benefit claims to confirm that the entitlement had been correctly calculated and was supported by appropriate evidence;
- undertaking an analytical review of the claim form considering year-on-year variances and key ratios;
- confirming that the subsidy claim had been prepared using the correct benefits system version; and
- completing testing in relation to modified schemes payments, uncashed cheques and verifying the accurate completion of the claim form.

Our work did identified one underpayment as a result of the Authority not amending records for a reported increase in annual rent liability for a regulated tenancy, which was reported as an observation within the qualification letter.

Consequently we have made no recommendations to the Council to improve its claims completion process. There were no recommendations made last year by the Council's previous Auditors and there are no further matters to report to you regarding our certification work.

Certification work fees

Public Sector Audit Appointments set an indicative fee for our certification work in 2015/16, the first year of the audit contract, of £11,484. Our actual fee was the same as the indicative fee. This compares to the 2014/15 fee from the Council's previous auditors for this claim of £16,200.

Yours sincerely

Rashpal Khangura

Engagement Lead

This report is addressed to the Council and has been prepared for the sole use of the Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Rashpal Khangura, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to andrew.sayers@kpmg.co.uk. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.



REPORT TO:	OVERVIEW AND SCRUTINY COMMITTEE
DATE:	26 JANUARY 2017
REPORT OF THE:	FINANCE MANAGER (s151) PETER JOHNSON
TITLE OF REPORT:	INTERNAL AUDIT SECOND PROGRESS REPORT 2016/17
WARDS AFFECTED:	ALL

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

- 1.1 The report summarises the outcome of internal audit work undertaken between 1 April 2016 and 31 December 2016, inclusive.

2.0 RECOMMENDATION(S)

- 2.1 It is recommended the Committee note the results of audit work undertaken as part of 2016/17 audit plan.

3.0 REASON FOR RECOMMENDATION(S)

- 3.1 To enable the Committee to fulfil its responsibility for considering the outcome of internal audit work.

4.0 SIGNIFICANT RISKS

- 4.1 The Council will fail to comply with proper practice requirements for internal audit and the Council's Audit Charter if the results of audit work are not considered by an appropriate Committee.

5.0 POLICY CONTEXT AND CONSULTATION

- 5.1 The work of internal audit supports the council's overall aims and priorities by promoting probity, integrity and honesty and by helping support the council to become a more effective organisation.

6.0 REPORT DETAILS

- 6.1 The work of internal audit is governed by the Accounts and Audit (England) Regulations 2015 and relevant professional standards. These include the Public Sector Internal Audit Standards (PSIAS) and CIPFA guidance on the application of those standards in Local Government. In accordance with the standards, the Head of Internal Audit is required to report on the results of audit work undertaken.

- 6.2 Veritau is progressing in the delivery of the agreed internal audit plan. Within the report there is a summary of progress made against the plan and a summary of the audit opinions for the individual audits completed thus far.
- 6.3 In the period between 1 April 2016 and 20 October 2016 one internal audit review has been completed. Work is also ongoing on 9 other areas and is being planned for 7 audits. It is expected all audits will have had draft reports issued by the end of April 2017.
- 6.4 It is important that agreed actions are formally followed-up to ensure that they have been implemented by managers. The internal audit team carries out follow-up work throughout the year and escalates any issues that have not been addressed, with senior managers. Where necessary, the issues will also be brought to the attention of this committee. There are no matters to report so far from the work following up findings in 2016/17.

7.0 IMPLICATIONS

- 7.1 The following implications have been identified:
- a) Financial
None
 - b) Legal
None
 - c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder)
None

Peter Johnson
Finance Manager (s151)

Author: Stuart Cutts Audit Manager.
Veritau Limited
Telephone No: 01653 600666
E-Mail Address: stuart.cutts@veritau.co.uk

Background Papers:
2016/17 Internal Audit Plan

RYEDALE
DISTRICT
COUNCIL



Ryedale District Council

Internal Audit Progress Report 2016/17

Period to 31 December 2016

Audit Manager: Stuart Cutts
Head of Internal Audit: Max Thomas

Circulation List: Members of the Overview and Scrutiny Committee
Chief Executive
Finance Manager (S151 Officer)

Date: 5 January 2017


Assurance Services for
the Public Sector

Background

- 1 The work of internal audit is governed by the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards (PSIAS). In accordance with the PSIAS, the Head of Internal Audit is required to report progress against the internal audit plan and to identify any emerging issues which need to be brought to the attention of the Committee.
- 2 Members of this Committee approved the 2016/17 Internal Audit Plan at their meeting on the 16 April 2016. The total number of planned audit days for 2016/17 was 225. This report summarises the progress made in delivering the agreed plan.
- 3 This is the second Internal Audit progress report to be received by the Overview and Scrutiny Committee in 2016/17. This report therefore updates the Committee on the work completed between 1 April 2016 and 31 December 2016.

Internal Audit work completed

- 4 In the period between 1 April and 31 December 2016 we have completed two internal audit reviews to final report stage; Data Protection and Security and General Ledger – Banking arrangements. Work is in progress on nine audits. Planning work has started for seven audits.
- 5 We have agreed timings with management for all 2016/17 audits. We are on target to deliver the agreed Audit Plan by the end of April 2017. Further information is included in Appendix A.
- 6 Information on the findings from the audit completed since the last Overview and Scrutiny Committee on 3 November 2016 is included in Appendix B.

Updates to the 2016/17 Audit Plan

- 7 Following the last Overview and Scrutiny Committee we have agreed some minor revisions to the 2016/17 plan with the Director of Finance (s151 Officer). Overall there is no change to the total number of audit days.
- 8 We have completed more work on Banking arrangements, Environmental Health and Strategic Asset Management than was initially envisaged in the 2016/17 original plan. The extra time has enabled the work to have greater value to the Council by providing more detailed reporting and audit review.
- 9 We have used the time originally allocated to complete work on Training to help complete the above additional work. Work on Training is better timed in 2017/18 to align with future improvements being planned by management. We will consider inclusion of work on Training in 2017/18 as part of the upcoming audit planning process.

Audit Opinions

- 10 For the majority of our reports we provide an overall opinion on the adequacy and effectiveness of the controls under review. The opinion given is based on an assessment of the risks associated with any weaknesses in controls identified. We also apply a priority to all actions agreed with management. Details of the opinion and priority ranking are included in Appendix C.

Wider Internal Audit work

- 11 In addition to undertaking assurance reviews, Veritau officers are involved in a number of other areas relevant to corporate matters:
- **Support to the Overview and Scrutiny Committee;** this is mainly ongoing through our attendance at meetings of the Committee and the provision of advice, guidance and training to Members as required.
 - **Ongoing support to management and officers;** we meet regularly with management to identify emerging issues and provide advice on a range of specific business and internal control issues. These relationships help to provide 'real time' feedback on areas of importance to the Council. We have been working with senior management as part of the ongoing 'Towards 2020 Programme', providing support, advice and challenge.
 - **LGA Corporate Peer Challenge;** the Head of Internal Audit has supported and was interviewed as part of the October 2016 work undertaken by the LGA.
 - **Follow up of previous audit recommendations;** it is important that agreed actions are regularly and formally 'followed up'. This helps to provide assurance to management and Members that control weaknesses have been properly addressed. In 2016/17 we have worked with officers to ensure all findings are now being recorded on the Council's 'Covalent' performance management system. This will allow audit matters to be highlighted, considered and then addressed alongside other relevant performance matters. We are continuing to review agreed actions either as part of our ongoing audit work, or by separate review. We currently have no matters to report to Members as a result of our follow up work.

Stuart Cutts
Audit Manager
Veritau Ltd

5 January 2017

Table of 2016/17 audit assignments to 31 December 2016

Audit	Status	Assurance Level	Audit Committee
Strategic Risk Register			
Business Continuity	Planning		
Disaster Recovery	Planning		
Training	Deferred		
Customer Expectations / Delivering Efficiencies	In progress		
Performance Management and Data Quality	Not started		
Fundamental/Material Systems			
Housing Benefits	In Progress		
Payroll	Planning		
Council Tax / NNDR	In Progress		
Sundry Debtors	Planning		
Creditors	Planning		
Income	In Progress		
General Ledger – Banking arrangements	Completed	Substantial Assurance	January 2017
Regularity Audits			
Contract Management	Planning		
Risk Management	Planning		
Environmental Health	In Progress		
General Network and Key System Controls	In Progress		
Technical/Project Audits			
Data Protection and Security	Completed	Reasonable Assurance	November 2016
IDEA data analytics and data matching	In Progress		
Strategic Asset Management	In Progress		
Follow-Ups	In Progress		

Summary of Key Issues from audits completed to 31 December 2016; not previously reported to Committee

Appendix B

System/Area	Opinion	Area Reviewed	Date Issued	Comments	Management Actions Agreed
General Ledger Banking Arrangements	Substantial Assurance	<p>Since our 2015/16 audit of the general ledger the Council has moved its banking arrangements from NatWest to Lloyds. This audit focussed on the change in banking arrangements and related matters.</p> <p>We reviewed banking arrangements to ensure</p> <ul style="list-style-type: none"> the evaluation of banking service providers was suitably robust accounts at both banks were reflected in year end processing accounts at both banks have been reflected in ongoing bank reconciliations 	December 2016	<p>Strengths</p> <p>We found the evaluation of banking service providers was suitably robust. The decision to move from NatWest to Lloyds was also approved by the Policy & Resources committee.</p> <p>We tested the Drawings account and Consolidated Bank reconciliations both at 2015/16 year end and during 2016/17. We saw that whilst the detailed processes are more complex when there are active accounts provided by two banks, the underlying principles of the existing controls have been successfully carried over.</p> <p>As such the transfer between banks is progressing satisfactorily without any undue issues. All reconciliations reviewed during the audit had been appropriately authorised.</p> <p>Areas for improvement</p> <p>The bank reconciliation processes are heavily reliant on the experienced individuals currently in post. Care needs to be taken to ensure, in the evolving environment brought about by the "Towards 2020" project, that robust processes are in place irrespective of the presence or otherwise of individual officers. It is likely that Towards 2020 will result in operational changes. It is therefore important that there is a robust control framework in place against which the resulting processes may be mapped.</p>	The need for robust procedures during a time of significant change is a high priority of the S151 officer and a significant risk he will continue to manage.

Audit Opinions and Priorities for Actions

Audit Opinions

Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.

Our overall audit opinion is based on 5 grades of opinion, as set out below.

Opinion	Assessment of internal control
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Reasonable Assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited Assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

Priorities for Actions

Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.



REPORT TO:	OVERVIEW AND SCRUTINY COMMITTEE
DATE:	26 JANUARY 2017
REPORT OF THE:	RESOURCES & ENABLING SERVICES LEAD (s151) PETER JOHNSON
TITLE OF REPORT:	ANNUAL GOVERNANCE STATEMENT ACTION PLAN
WARDS AFFECTED:	ALL

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

- 1.1 The report informs Members of the progress made to address the actions identified in the 2015-16 Annual Governance Statement (AGS) action plan.

2.0 RECOMMENDATION

- 2.1 It is recommended that Members note the progress made to address identified actions in the 2015-16 AGS action plan.

3.0 REASON FOR RECOMMENDATION

- 3.1 Monitoring progress with identified actions in the AGS is good practice and it helps to demonstrate to the external auditors that the audit committee is properly exercising its role.

4.0 SIGNIFICANT RISKS

- 4.1 There are no significant risks.

5.0 POLICY CONTEXT AND CONSULTATION

- 5.1 There is no impact upon specific policies, although the AGS is an important corporate document demonstrating the Council's commitment to an open and transparent philosophy in all its activities.

6.0 REPORT DETAILS

- 6.1 Good governance is important to all involved in local government; however, it is a key responsibility of the Leader of the Council and of the Chief Executive.

- 6.2 The preparation and publication of an Annual Governance Statement in accordance with the Cipfa/SOLACE Framework is necessary to meet the statutory requirements set out in Regulation 6 of the Accounts and Audit Regulations 2015.
- 6.3 To meet the requirement to review the AGS an Action Plan has been agreed and is subject to review by the Council's Audit Committee.
- 6.4 This report presents a review of the implementation of actions proposed in the Action Plan associated with the 2015-16 AGS.
- 6.5 The Action Plan detailed in Appendix A, sets out the current position with comments on the actions proposed in the plan.
- 6.6 The AGS Action Plan is a document that should be reviewed periodically during the year. A final review will be completed when the AGS for 2016-17 is being drafted and any current items which remain outstanding will then be brought forward into the new AGS.

7.0 IMPLICATIONS

- 7.1 The following implications have been identified:
- a) Financial
None
 - b) Legal
None
 - c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder)
None

Peter Johnson Resources & Enabling Services Lead (s151)

Author: Peter Johnson, Resources & Enabling Services Lead (s151)
Telephone No: 01653 600666 ext 392
E-Mail Address: peter.johnson@ryedale.gov.uk

Background Papers:
None

ANNUAL GOVERNANCE STATEMENT 2015/16

Action Plan for Implementation in 2016/17

STATUS	CONTROL ISSUE	ACTION PROPOSED	RESPONSIBILITY	TARGET DATE	CURRENT POSITION & COMMENTS
Brought Forward	Risk of compromise and weaknesses in operational systems as a consequence of continuing reductions in staffing as Government funding cuts made.	Where changes in staffing occur, that changes in operating arrangements are reviewed prior to reducing the controls. Internal audit will be included in working groups reviewing operating systems and arrangements, including commissioning, partnership arrangements etc.	Finance Manager (s151 Officer).	Ongoing	The T2020 transition process to the new operating model will include an assessment of whether controls within operational systems are working adequately. Internal Audit have been and will continue to be involved in the T2020 process.
2015/16	The audit opinion of the control environment for the management of risk is weak.	That the Corporate approach to risk is applied consistently across the council for management of corporate, service, project and partnership risk.	Head of Corporate Services	October 2016	Good progress made following the implementation of the browser version of Covalent. Training undertaken for all managers. 11th November Reviewed the corporate risk register. Risks have been scored and mitigating actions added. Management to review the corporate risk reporting and review risks on a monthly basis Service risk registers will be developed as part of the transition to the new operating model

	<p>The audit opinion of the Internal control environment for the Payroll process remains weak. In the financial year 2015-16 there has been effort made to improve the control environment and whilst progress has been made it is not enough to improve the overall opinion.</p>	<p>In addition to the agreed audit actions, improved joint working is planned between staff involved in Payroll and Finance to improve a number of procedures for the payroll process. This will include regular meetings of key staff responsible for the implementation of recommendations with the s151 Officer to ensure progress made continues in the new financial year.</p>	Finance Manager and HR Manager.	October 2016	<p>Reconciliation processes have been improved and are carried out on a regular basis.</p> <p>It is envisaged that employee self service will roll out across the authority from April 2016 and discussions have commenced with CYC around finalising a service level agreement.</p> <p>Payroll and Finance functions will be integrated into one section under the new operating model from April.</p>
<p>2015/16</p> <p>Page 76</p>	<p>On-going and future changes to the Council's financial framework including several changes to national and local funding regimes will increase the financial pressure on the Council and risk profile. These changes arise from on-going changes to benefit administration and continued downward pressure on government funding of Councils as confirmed in the indicative long term financial settlement</p>	<p>The agreed Medium Term Financial Strategy of the Council reflects the expected need to make future savings over the medium term taking into account anticipated changes in financing. This informs the budget process for 2017/18 and future years.</p> <p>The Finance Manager considers the risk as part of the closure of accounts including the need to make appropriate provisions and reserves at the year-end.</p>	Finance Manager	Ongoing	<p>The Medium Term Financial Strategy is in the process of being updated to reflect the provisional Local Government finance settlement and emerging local budget issues, the strategy will be discussed with members prior to seeking approval in February 2017.</p> <p>The 2015/16 Statement of Accounts, including a statement on the adequacy of reserves made by the s151 officer, were approved by the P&R Committee in September 2016</p>
2015/16	<p>The Council has identified the publication of data to meet the requirements of the Transparency Code for Local government, as placing the council at risk of a future fraud as information included in the public domain could be used by determined third parties to exploit the Council.</p>	<p>That the Council meet its statutory requirements to publish open data by releasing the minimum level of detail required.</p> <p>That Internal Controls are kept under review and key staff are kept updated on latest techniques used by fraudsters.</p>	Finance Manager (s151)	Ongoing	<p>The minimum level of transparency data is being published.</p> <p>Key staff are updated on the latest fraud techniques as and when.</p>

This page is intentionally left blank



Technical update

Ryedale District Council
January 2017

Contents

The contacts at KPMG in connection with this report are:

Rashpal Khangura Director KPMG LLP (UK) Tel: 07876 392195 Rashpal.Khangura@kpmg.co.uk	External audit progress report	3
	KPMG resources	5
	Technical developments	8
Rob Walker Manager KPMG LLP (UK) Tel: 0113 231 3619 Rob.Walker@kpmg.co.uk	Appendices	
	1. 2016/17 audit deliverables	14

This report provides the Audit Committee with an overview on progress in delivering our responsibilities as your external auditors. The report also highlights the main technical issues which are currently having an impact in local government. If you require any additional information regarding the issues included within this report, please contact a member of the audit team. We have flagged the articles that we believe will have an impact at the Authority and given our perspective on the issue:

- High impact
- Medium impact
- Low impact
- For information

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Rashpal Khangura, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to Andrew.Sayers@kpmg.co.uk After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.



External audit progress report

External audit progress report

This document provides the audit committee with a high level overview on progress in delivering our responsibilities as your external auditors.

At the end of each stage of the audit we issue certain deliverables, including reports and opinions. A summary of progress against these deliverable is provided in Appendix 1 of this report.

Area of responsibility	Commentary
Planning	<i>We have commenced detailed planning work for our 2016/17 audit and we will discuss our plan with officers during January 2017 to issue a plan in February.</i>
Financial statements	<i>We will update this section as we progress our work during the year.</i>
Value for Money	<i>As above</i>
Certification of claims and returns	<i>As Above</i>
Other work	<i>No additional work has been requested .</i>



KPMG resources

Publication 'The future of cities'

We are delighted to share *The future of cities*, a report that helps local government leaders build and evaluate sustainable cities for their current and future generations.

What is *The future of cities*?

The future of cities is a global report that follows from the UK firm's thought leadership partnership with the City of Bristol and the work surrounding its European Green Capital 2015 designation. The report is broken into two modules that draw on the expertise of KPMG practitioners around the world and includes a range of case studies to ensure you find approaches relevant to your context.

The first module, *The future of cities: creating a vision*, explains the central role of vision in the success of second cities, identifying seven guiding principles to make cities more attractive. Examples are provided of various cities around the globe that are putting some of these principles into action.

The second, *The future of cities: measuring sustainability*, discusses some of the ways in which cities are being measured and how these metrics could evolve. More important, it provides practical examples of what leading cities are doing, the lessons to be learned and how these can be applied to other cities.

This content is now featured on kpmg.com/futurecities where readers can access a broader collection of reports and shorter opinion pieces from KPMG's leading thinkers on different aspects on how to create better, more sustainable places to live and work.

Chief Accountant training events

We are pleased to confirm that we will once again be running a series of local government accounts workshops for key members of your finance team. The workshops are focussed at Chief Accountants and similar staff who will be involved in and responsible for the 2016/17 close down and statement of accounts.

The workshops will be led by our regional local government audit teams supported by our national local government technical lead Greg McIntosh.

The Leeds event is 15th February 2016 1.30 to 5pm.

For more information, please contact Rob Walker e-mail rob.walker@kpmg.co.uk telephone 07912 763085.



Technical developments

Disposal of public land for new homes: a progress report

Level of impact: ● (For Information)

In July the NAO published a report, Disposal of public land for new homes: a progress report, which may be of interest to auditors. Towards the government's commitment to release enough public sector land for 160,000 homes by 2020, the report finds that to date only land with capacity for an estimated 8,580 homes has been disposed of.

This report is central government facing and will be supplemented by the publication of further work on the wider housing landscape, including the government's separate ambition to release local authority land, later this year. The report is available from the NAO website.

For further information please contact Paul Mayers, Audit Manager, on 07972 221 078 or paul.mayers@nao.gsi.gov.uk.

Children in need of help or protection

Level of impact: ● (For Information)

The NAO has recently published a report entitled Children in need of help or protection.

The report finds that the actions taken by the Department for Education since 2010 to improve the quality of help and protection services delivered by local authorities for children have not yet resulted in services being of good enough quality. NAO analysis found that spending on children's social work, including on child protection, varies widely across England and is not related to quality.

Neither the Department for Education nor authorities understand why spending varies.

The report finds that nationally the quality of help and protection for children is unsatisfactory and inconsistent, suggesting systemic rather than just local failure. Ofsted has found that almost 80% of authorities it has inspected since 2013 are not yet providing services rated as Good to help or protect children. Good performance is not related to levels of deprivation, region, numbers of children or the amount spent on children in need. Ofsted will not complete the current inspection cycle until the end of 2017, a year later than originally planned. The Department does not therefore have up-to-date assurance on the quality of services for 32% of local authorities.

The report also notes that children in different parts of the country do not get the same access to help or protection, finding that thresholds for accessing services were not always well understood or applied by local partners such as the police and health services. In Ofsted's view some local thresholds were set too high or low, leading to inappropriate referrals or children left at risk. In the year ending 31 March 2015 there were very wide variations between local authorities in the rates of referrals accepted, re-referrals, children in need and repeat child protection plans.

The report is available from the NAO website.

For further information please contact John Hopkins, Audit Principal, on 020 7798 5481 or john.hopkins@nao.gsi.gov.uk.

Consultation on 2017-18 work programme and scales of fees

Level of impact: ● (For Information)

Public Sector Audit Appointments Ltd (PSAA) has published its consultation on the 2017-18 work programme and scales of fees.

The consultation sets out the work that auditors will undertake at principal local government and police bodies for 2017-18, with the associated scales of fees. The consultation document, and the lists of individual scale fees, are available on the 2017-18 work programme and scales of fees consultation page of the PSAA website.

There are no planned changes to the overall work programme for 2017-18. It is therefore proposed that scale fees are set at the same level as the scale fees applicable for 2016-17.

The work that auditors will carry out on the 2017-18 accounts will be completed based on the requirements set out in the Local Audit and Accountability Act 2014 and under the Code of Audit Practice.

The consultation closes on Thursday 12 January 2017. PSAA will publish the final work programme and scales of fees for 2017-18 in March 2017.

This is the final year for which PSAA will set fees under the current transitional arrangements. The Secretary of State for Communities and Local Government has specified PSAA as an appointing person for principal local government and police bodies, under the provisions of the Local Audit and Accountability Act 2014 and the requirements of the Local Audit (Appointing Person) Regulations 2015.

This means that PSAA will make auditor appointments under new audit contracts to bodies that choose to opt into the national scheme the company is developing, for audits of the accounts from 2018-19.

Further information is available on the appointing person page of the PSAA website. If there are queries on the proposed work programme and scale of fees please contact Kerry Reid at PSAA (kerry.reid@psaa.co.uk).

Overview of Local Government

Level of impact: ● (For Information)

The NAO has recently published an Overview of Local Government

The overview looks at the local government landscape and summarises both matters of likely interest to the Select Committee and the National Audit Office's (NAO's) work with local authorities. These include Local Government Responsibilities, Funding and Service Spending and the findings from the NAOs work on Local Government.

The overview is available from the NAO website at <https://www.nao.org.uk/wp-content/uploads/2016/11/Overview-Local-government.pdf>



Appendix

Appendix 1

2016/17 audit deliverables

Deliverable	Purpose	Timing	Status
Planning			
Fee letter	Communicate indicative fee for the audit year	April 2016	Completed
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	February 2017	In Progress
Interim			
Interim report	Details and resolution of control and process issues. Identify improvements required prior to the issue of the draft financial statements and the year-end audit. Initial VFM assessment on the Council's arrangements for securing value for money in the use of its resources.	March 2017	TBC
Substantive procedures			
Report to those charged with governance (ISA 260 report)	Details the resolution of key audit issues. Communication of adjusted and unadjusted audit differences. Performance improvement recommendations identified during our audit. Commentary on the Council's value for money arrangements.	September 2017	TBC

Page 92

Appendix 1

2016/17 audit deliverables (cont.)

Deliverable	Purpose	Timing	Status
Completion			
Auditor's report	Providing an opinion on your accounts (including the Annual Governance Statement). Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	September 2017	TBC
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2017	TBC
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	November 2017	TBC
Certification of claims and returns			
Certification of claims and returns report	Summarise the outcomes of certification work on your claims and returns for Government departments.	December 2017	TBC



© 2017 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.