Buckinghamshire County Council
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Agenda

REGULATORY AND AUDIT COMMITTEE

Date: Wednesday 9 November 2016

Time: 9.15 am

Venue: Mezzanine Room 2, County Hall, Aylesbury

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	Agenda Item	Time	Page No
1	**APOLOGIES FOR ABSENCE / CHANGES IN MEMBERSHIP**	09:15	
2	**DECLARATIONS OF INTEREST** To disclose any Personal or Disclosable Pecuniary Interests		
3	**MINUTES** of the public meeting held on 21st September 2016 to be confirmed as a correct record.		5 - 10
4	**EXTERNAL AUDIT APPOINTMENTS** To be presented by Richard Schmidt, Head of Strategic Finance.	09:20	11 - 22

5	**CONTRACT STANDING ORDERS - EXEMPTIONS / BREACHES** To be presented by Mark Preston, Finance Director.	09:30	23 - 28
6	**ANNUAL ENFORCEMENT OF THE CHILDREN AND YOUNG PEOPLE (PROTECTION FROM TOBACCO) ACT UPDATE** To be presented by Amanda Poole, Trading Standards Manager.	09:40	29 - 32
7	**RISK MANAGEMENT GROUP UPDATE** To be presented by Maggie Gibb, Chief Internal Auditor.	09:55	33 - 34
8	**MONITORING OF THE ANNUAL GOVERNANCE STATEMENT** To be presented by Maggie Gibb, Chief Internal Auditor.	10:05	35 - 38
9	**PUBLIC SECTOR INTERNAL AUDIT STANDARDS** To be presented by Maggie Gibb. Chief Internal Auditor.	10:15	39 - 50
10	**FORWARD PLAN** Standing Item to be presented by Maggie Gibb, Chief Internal Auditor.	10:25	51 - 56
11	**TREASURY MANAGEMENT UPDATE** Including the prudential indicators and the revised Minimum Revenue Position (MRP) Policy. To be presented by Cllr. David Watson, Julie Edwards, Pensions and Investments Manager and Elspeth O'Neill, Projects and Financial Accountancy Lead.	10:35	57 - 84
12	**DATE AND TIME OF NEXT MEETING** 08 February 2017, 09:00, Large Dining Room, Judges Lodgings, Aylesbury.	10:55	
13	**EXCLUSION OF THE PRESS AND PUBLIC** **To resolve to exclude the press and public as the following item is exempt by virtue of Paragraph 3 of Part 1 of Schedule 12a of the Local Government Act 1972 because it contains information relating to the financial or business affairs of any particular person (including the authority holding that information)**		
14	**CONFIDENTIAL MINUTES** For Committee Members to agree the confidential minutes of the closed session at the 21st September 2016 meeting.	10:55	85 - 90

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For further information please contact: Kevin Wright on 01296 387832, email: kwright@buckscc.gov.uk

Members

Mr T Butcher (VC)	Mr P Hardy
Mr W Chapple OBE	Mr D Martin (C)
Mrs A Davies	Mr R Scott
Mr T Egleton	Mr A Stevens

Buckinghamshire County Council

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Minutes

REGULATORY AND AUDIT COMMITTEE

MINUTES OF THE MEETING OF THE REGULATORY AND AUDIT COMMITTEE HELD ON WEDNESDAY 21 SEPTEMBER 2016 IN MEZZANINE ROOM 2, COUNTY HALL, AYLESBURY, COMMENCING AT 9.00 AM AND CONCLUDING AT 11.30 AM.

MEMBERS PRESENT

Mr T Butcher
Mr W Chapple OBE
Mrs A Davies
Mr T Egleton
Mr P Hardy
Mr D Martin
Mr R Scott

OTHERS IN ATTENDANCE

Mr S Dando, Contract Director, Ringway Jacobs
Ms L Forsythe, Group Solicitor and Deputy Head of Legal Services
Ms M Gibb, Head of Business Assurance
Ms C High, Corporate Training Advisor
Mr M Kemp, Director of Transport
Mr Z Mohammed, Cabinet Member
Mr R Schmidt, Head of Strategic Finance, Assistant Service Director (Strategic Finance)
Ms G Shurrock, Head of SEN
Mrs E Wheaton, Committee and Governance Adviser
Mr N Wilson, Service Director Education, Bucks County Council

1 APOLOGIES FOR ABSENCE / CHANGES IN MEMBERSHIP

Apologies were received from Mr A Stevens.

2 DECLARATIONS OF INTEREST

There were no declarations of interest.

3 MINUTES

The minutes of the meeting held on 28th July 2016 were agreed and signed as a correct record.

4 EXTERNAL AUDIT ACTION UPDATE

The Chairman welcomed Richard Schmidt, Head of Strategic Finance who provided Members with an update on the establishment of a Sector Led Body for the appointment of external auditors for local government bodies.

The following main points were made:-

- Members were informed that the Council had expressed an interest in the Sector Led Body (SLB) without giving any firm commitment. Similar expressions of interest were received by 270 local authorities demonstrating widespread support across the sector.
- The Local Government Association (LGA) had proposed that Public Sector Audit Appointments (PSAA) be established as the SLB and had made them the “appointed person”. This did not prevent local authorities appointing their own external auditors.
- PSAA would formally invite individual councils to sign up to its arrangements in October 2016 (with a deadline around December2016/January 2017). The Council would, at this point, need to decide whether it wished to go down this route or make its own arrangements.
- A Member suggested speaking to the LGA about exit costs and whether these would be reflected if the Council decided to make its own arrangements.
- Members asked for further information on the cost savings associated with making its own arrangements before making a final decision.

RESOLVED

The Committee NOTED the contents of the report and AGREED to discuss this at its November meeting when further costs would be made available.

5 REPORT ON MANDATORY TRAINING ACROSS THE ORGANISATION

The Chairman welcomed Ms C High, Corporate Training Adviser to the meeting.

The following main points were made during the presentation:-

- One Council Board had approved a refresher e-Learning programme to be assigned to all staff for completion by June 2016.
- The programme packaged together the four mandatory e-Learning modules contained with induction training (Data Protection Awareness, Equality & Diversity Essentials, Introduction to Health and Safety and Agile Working).
- The purpose of the refresher programme had been to ensure all existing staff across the organisation had achieved the basic level of compliance training.

- There had been a steep rise in the rate of course completions throughout the duration of the programme, spiking in the last week of June 2016.
- Data Protection training showed the highest level of compliance amongst Council staff with 83.7% of all staff completing the e-Learning module.
- In response to a question about whether the Council should be aiming for 100% compliance, the Officer explained that it was not possible to achieve 100% due to people leaving and joining the organisation but that the Council should be looking for around 90% compliance.
- A follow-up report would be presented to One Council Board to show compliance levels in each Business Unit.
- Detailed reports would be sent to Service Managers highlighting staff who had not yet completed the programme and feedback sought on the reasons for non-compliance.
- Automatic responses and overdue messages would continue to be sent out to staff.
- Mandatory training would be automated for all new starters from September onwards – a message would be sent to their Outlook alerting them to the requirement to complete the modules as part of their corporate induction training.
- A Member commented that it would be useful to see the take-up of training by Business Unit. It was agreed to invite the Officer to a future meeting (around April 2017) to present a progress report and to review how effective the automated reminders had been.

ACTION

- **Committee & Governance Adviser to invite Ms High to a Committee meeting in April 2017 to provide an update on progress.**

RESOLVED

Members NOTED the report and supported the stepped approach to increase compliance for all staff.

6 BUSINESS ASSURANCE TEAM UPDATE

Due to the nature of the information contained in the report, the Chairman advised the Committee that this item had been moved so that it could be discussed once the press and public had been excluded.

7 ANTI-FRAUD & CORRUPTION POLICY AND MONEY LAUNDERING POLICY

The Chairman welcomed Ms M Gibb, Head of Business Assurance and Chief Internal Auditor.

Ms Gibb updated Members on the two reports and made the following main points:-

- The Anti-Fraud and Corruption Strategy had been updated with minor changes to reflect current structures/job titles.

- The Anti-Money Laundering Policy had been updated to reflect changes in structures/job titles and other minor changes to the content.

There had been no changes in legislation since these documents were last updated.

RESOLVED

The Committee APPROVED the Anti-Fraud and Corruption Strategy and the Money Laundering Policy.

8 FORWARD PLAN

Members noted the forward plan.

9 DATE AND TIME OF NEXT MEETING

The next meeting will take place on 9 November 2016 at 9am in Mezzanine Room 2, County Hall, Aylesbury.

10 EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED

That the press and public be excluded for the following item which is exempt by virtue of Paragraph 3 of Part 1 of Schedule 12a of the Local Government Act 1972 because it contains information relating to the financial or business affairs of any particular person (including the authority holding that information)

10A BUSINESS ASSURANCE TEAM UPDATE

The Committee discussed and noted the Business Assurance team update.

11 SPECIAL EDUCATIONAL NEEDS AUDIT

The Committee discussed the results of the Special Educational Needs Audit.

12 BUCKS LEARNING TRUST (BLT) AND SCHOOLS AUDITS

The Committee considered the Bucks Learning Trust and Schools Audits.

13 TRANSPORT FOR BUCKS STREET LANTERN REPLACEMENT AUDIT.

The Committee discussed and commented on the Transport for Bucks Street Lantern Replacement Audit.

14 CONFIDENTIAL MINUTES

The confidential minutes of the meeting held on 9 November 2016 were agreed and signed as a correct record.

CHAIRMAN

Buckinghamshire County Council
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Regulatory and Audit Committee

Title: External Audit Appointments

Date: Wednesday 9 November 2016

Author: Richard Schmidt - Head of Strategic Finance

Contact officer: Richard Schmidt – Head of Strategic Finance 01296 387554

Local members affected: All

For press enquiries concerning this report, please contact the media office on 01296 382444

Summary

The Council needs to make preparations for the appointment of its external auditors as the arrangements with Grant Thornton approach an end. The Council can make its own arrangements or make use of a framework being set up by Public Sector Audit Appointments (PSAA) the sector-led body established by the LGA.

The Regulatory & Audit Committee received an outline report on this subject at its last meeting on 21 September 2016 and raised a number of questions, particularly around the cost of the options available. This report is aimed at responding to those queries, although it is not possible to provide certainty on most aspects at this point in time.

The Council has now received the formal invitation to join the sector-led arrangements from PSAA and this along with accompanying further information from PSAA is attached as an appendix to this report.

Recommendation

To recommend to Full Council to opt in to the sector-led arrangements offered by Public Sector Audit Limited.

Supporting information to include the following if a decision is being requested:

1.0 The Council needs to make an external auditor appointment by 31 December 2017 at the latest. It has a choice over the approach to be taken, but now needs to decide which approach to take so that the necessary preparations can be made in a timely manner. The Council can make its own arrangements, either alone or with other councils, or can make use of the sector-led arrangements approved by the Secretary of State.

2.0 Members of the Regulatory & Audit Committee wanted to understand more about the costs involved with the options available. The remainder of this report is largely aimed at providing some consideration of this matter.

3.0 It is worth pointing out at the outset that there can be little certainty over these matters as it involves future events. However, it is possible to make some informed judgements based on past experience. These are set out in the table below.

Issue	Local Appointment	Sector-led Body
Cost of establishing an Auditor Panel.	Need to advertise for the independent members of the panel and conduct suitability and selection process. Cost of advert and officer time to support the process, estimated to be in the regions of £2k. (largely existing costs)	Not applicable
Cost of running an Auditor Panel	Unlikely to pay allowances, but rather expenses of members. Officer time to support the process, which will be infrequent. Officer time (existing costs) of around £1k, plus expenses of a few hundred pounds.	Not applicable
Cost of preparing a specification for the audit arrangements	We have not had to do this in the recent past, so little direct experience. There may be template examples to use, but nonetheless it is still likely to take a fair amount of officer time to produce a suitable specification estimated at £5k (existing costs).	Not applicable / absorbed within contract price.
Cost of procuring the audit arrangements.	Would need to run a procurement exercise. A multi-year contract would be likely to exceed EU thresholds. Cost of necessary adverts, plus officer time to run the	Not applicable / absorbed within contract price.

	process. Estimated cost of officer time (£10 - 15k) (existing cost)	
Cost of contract management	Under our current audit arrangements there are regular liaison meeting with the auditors. This would be likely to be maintained. Would be insufficient in the case of dispute	As PSAA are unlikely to be close to the individual audit arrangements costs are likely to be similar to own arrangements. May be able to call on PSAA expertise in the event of dispute, plus some responsibility on PSAA to help resolve.
Cost of audit contract	Unable to tell ahead of procurement exercise. However, an individual player in the market is unlikely to have the same leverage as a consolidated approach. This is especially likely given that procurement will be taking place across the country in a similar timeframe.	Likely to be able to exercise more influence in the market place and therefore obtain keener prices.
Exit costs	Would depend on circumstances	Would depend on circumstances, but PSAA may carry some responsibility to resolve.
Expertise	We are inexperienced in carrying out such a procurement and therefore carry an increased risk of error/omission.	Will be able to call on expertise as necessary as the cost of doing so will be spread over many.

4.0 The prospectus set out by PSAA and included with the previous report to the Committee states the following: “There will not be a fee to join the sector led arrangements. The audit fees that opted-in bodies will be charged will cover the costs to PSAA of appointing auditors and managing the arrangements. We believe that audit fees achieved through large contracts will be lower than the costs that individual authorities will be able to negotiate. In addition, by opting into the PSAA offer, bodies will avoid the costs of their own procurement and the requirement to set up an auditor panel with independent members.”

5.0 It can be seen from consideration of the table above that the costs of carrying out a local procurement are unlikely to be very large and are mainly contained within existing resources, at least in theory. The main challenge would come from whether there is the capacity to carry out this work alongside all existing work from within those existing resources.

6.0 In addition to the issue of capacity there is also an issue of expertise. PSAA are familiar with procuring and contract managing audit arrangements, whereas the Council is not. Having said that it is probably not the most complex of issues the Council has to deal with. Further it is likely that a fair amount of local contract management will be required in any event.

7.0 A further potential benefit of choosing the PSAA option is that they have undertaken to try to align audit appointments with joint arrangements and collaborations and to flex the audit appointments if those joint arrangements change over time.

8.0 In summary this would not be the largest, nor most complex procurement exercise carried out by the Council, although it does have a high profile impact. Looking at the analysis of likely costs and risks there is a marginal indication in all aspects considered towards making use of the sector-led arrangements rather than carrying out a local procurement. It is on this basis that the recommendation is made.

9.0 The Council has now received the formal invitation to join the sector-led arrangements from PSAA and this along with accompanying further information from PSAA is attached as an appendix to this report. The deadline for response has been set as 9th March 2017, which is a little later than the January deadline previously indicated. If the Council wishes to take up this invitation this has to be a decision of Full Council, hence the need to make a recommendation from this committee to Full Council.

Resource implications

Given the nature of this report resource implications are covered in the main body of the report.

Legal implications

The Local Authority Audit and Accountability Act 2014 requires that each relevant authority must appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding financial year. Grant Thornton are appointed to be the auditors for Buckinghamshire County Council up until 2017/18 financial year. There a new appointment is needed by December 31 2017 for the financial year 2018/19.

The Secretary of State may choose to appoint a sector-led body to effectively carry out the functions of the auditor panel for an authority should that authority choose to adopt such arrangements. The Secretary of State has exercised this entitlement by appointing Public Sector Audit Appointments to be the sector-led body.

If the local authority chooses to appoint its auditors itself it must set up an Auditor Panel to carry out this role. The Auditor Panel can be a separate panel, or a committee of the Council provided that Committee meets the legal requirements for an Auditor Panel. The Auditor Panel can be established to service a single local authority, or a group of authorities. The Panel must have a majority of independent members (i.e. not elected Councilors) and be chaired by an independent member.

Background Papers

Previous report to Regulatory and Audit Committee on 21 September 2016.

Public Sector Audit Appointments

27 October 2016

Email: appointingperson@psaa.co.uk

Rachael Shimmin
Buckinghamshire County Council
County Hall
Walton Street
Aylesbury Buckinghamshire HP20 1UA

Copied to: Richard Ambrose, Director of Assurance, Buckinghamshire County Council
Hugh Peart, Director of Legal Service [shared services with Harrow and Barnet Legal Services], Buckinghamshire County Council

Dear Ms Shimmin

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.

Regulatory and Audit Committee

Title: Contract Standing Orders - Exemptions / Breaches

Date: Wednesday 9 November 2016

Author: Richard Ambrose

Contact officer: Mark Preston (01296) 383107

Local members affected: N/A

For press enquiries concerning this report, please contact the media office on 01296 382444

Summary

This report provides an updated summary in relation to compliance with the Council's Standing Orders relating to Contracts (CSO) and compliance with the Public Procurement Regulations

The reporting period covers the period from 1st April 2016 until 30th September 2016

Recommendation

Members are asked to note this report

Background

The Committee has received three earlier reports on this subject, the most recent one being presented in April 2016

This Committee requested that they be updated at six monthly intervals on this subject.

Summary

1.1 Standing Orders Relating to Contracts, Exemptions and Breaches

Standing Order 7 of the Contract Standing Orders states that all purchases over 25K must be subject to competition.

Standing Order 5 allows an exemption to the requirement for competition and allows a contract to be placed by direct negotiation with one or more suppliers.

Exemptions under this Order, however, cannot be granted if EU Regulations apply i.e. purchases with a value of £164,176 or above. If a direct award is made which is above this threshold (if a legal alternative such as a Framework is not used) a breach has occurred and officers are obliged to report this to the S151 and monitoring officer (statutory officers).

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1.1 Data Summary

1.1.1 Exemptions

There were a total of 9 exemptions registered in Quarters 1 and 2 for the Fiscal Year 16/17. This compares to 7 for the same period last year (7).

During Q1 and Q2 of the Fiscal Year 2016/17:

- The highest value application was £160,000
- The lowest value application was £27,500
- 1 exemption was raised retrospectively (Mencap, Wendover Road)
- The total value of exemptions approved was £759,166 a slight increase on the same period for 15/16 (£687,297)
- The average value of an exemption was approximately £88,000
- The average length of an exemption was 10 months.

1.1.2 Breaches to public procurement regulations

Two breaches have been reported to the Statutory Officers in the six month period since the last report.

1.1.2.1 The first breach is in relation to the Prevention Matters Community Practice Workers (CPW) contracts that are due to come to an end on 31 December 2016.

The current contracts ended between March and May 2016. Exemptions were then obtained to put in place arrangements until 31st December 2016 This service is now being extended for a further 6 months whilst Adult Social Care develops the business case for the new Social Work Operating Model which is envisaged to have preventative elements in it. It is anticipated that by April 2017 a decision on the future of the CPW function will be made.

	Exemption Value	Breach Value
o Carers Bucks	£149,000	£102,000
o Bucks Mind	£127,000	£117,500

1.1.2.2 The second breach relates to the contract with POhWER for the provision of advocacy and direct payments and which is due to end in March 2017.

In December 2015, CHASC accepted a recommendation that re-commissioning of the POhWER contract be jointly undertaken with contracts for similar services in Community, namely Healthwatch and NHS Complaints. A business case was developed in April 2016 and this business case was approved by CHASC management in May 2016. Following this officer approval, the Cabinet Member for Community Engagement and Public Health withdrew support, identifying that there would be a conflict of interest if a Healthwatch contract was procured and managed by Adult Social Care.

A further business case was subsequently submitted for the re-commissioning of Adult Social Care contracts only. These included advocacy, direct payment and user engagement. This was approved by member key decision on 26th July 2016.

After the key decision was taken, a separate digital improvement project highlighted potential significant savings that could be achieved by a direct payments digital solution. A further business case was developed and approved to bring all direct payments management and advice ‘in-house’.

These two changes of commissioning strategy delayed the re-commissioning project.

To achieve full consultation, EU tender of advocacy contract and the approval process, the project plan now indicates that tender award for advocacy cannot be achieved until May 2017. If the contract is awarded to a new provider, a three month handover period will be required which means the new contract would not start until August 17. This will result in a breach of standing orders as the existing contract will have to be extended by 5 months

The value of the breach is £325,540 and consists of:

- Advocacy estimate for 5 months : £114,780

The breach for Direct payments is unknown as the timescales for the DP handover have not been confirmed. The worst case scenario is 5 months.

- Direct Payments estimate for 5 months: £210,760

2. Publication of Opportunities and Award Notices

The Public Procurement Regulations 2015 and the Government’s Transparency Agenda require Local Authorities to publish contract opportunities and award notices on Contracts Finder. (Contracts Finder is the website used for the publication of all public sector procurement opportunities in England). Failure to comply will put the Authority in breach of UK law. The Crown Commercial Service is still considering the sanctions that will apply for non-compliance. Currently compliance is being monitored via a mystery shopping approach.

Unfortunately the reporting tool on the e-tendering system that was due to be released by the system provider in the last quarter has been delayed until January 2017. This tool will enable Procurement to set up and run tailored reports.

We are therefore unable to provide accurate data for breaches in this area.

There have been no Mystery Shopping cases about the Council in the last 6 months.

.Data (Appendix One)

Fig. 1 - Data summary

Summary of all Exemption to Standing Orders registered during Complete Fiscal Year 2015/16 and Q1 & 2 2016/17

FY 2015/16	**Qtr. 1**	**Qtr. 2**	**Qtr.3**	**Qtr. 4**	**Total**
Total number. of exemptions registered	5	2	5	10	**22**
Total number. of exemptions cancelled during process	1	1	0	2	**4**
Lowest value exemption (excluding cancelled)	£47,000	£50,000	£10,000	£35,963	
Highest value exemption (excluding cancelled)	£143,797	£50,000	£324,311	£120,000	
Total no. of exemptions raised retrospectively (excluding cancelled)	1	0	0	4	**5**
Total value of retrospective exemptions (excluding cancelled)	£70,000	£0	£0	£200,163	**£270,163**
Total value of exemptions	**£514,797**	**£172,500**	**£558,868**	**£982,891**	**£2,229,056**

Q1 & 2 FY 2016/17	**Qtr. 1**	**Qtr. 2**			
Total number of exemptions registered	4	5			9
Total number. of exemptions cancelled during process	0	0			**0**
Lowest value exemption (excluding cancelled)	£100,000	£27,500			
Highest value exemption (excluding cancelled)	£120,000	£160,000			
Total no. of exemptions raised retrospectively (excluding cancelled)	0	1			**1**
Total value of retrospective exemptions (excluding cancelled)	£0	£92,000			
Total value of exemptions	**£287,333**	**£471,833**			

Fig. 2 - Analysis of exemptions applied for under Standing Orders relating to Contracts

Complete Fiscal Year 2015/16 and Q1 & 2 2016/17

Summary Complete Fiscal Year 2015/16	**Qtr. 1**	**Qtr. 2**	**Qtr. 3**	**Qtr. 4**	**FY 15/16**
Total no. of exemptions registered	5	2	5	10	**22**
Total no. of exemptions cancelled during process	1	1	0	2	**4**
Total no. of exemptions categorised as Low risk (excludes cancellations)	4	1	4	5	**14**
Total no. of exemptions categorised as Medium risk (excludes cancellations)	0	0	1	3	**4**
Total no. of exemptions categorised as High risk	0	0	0	0	**0**

Q1 & 2 FY 2016/17	**Qtr. 1**	**Qtr. 2**			**FY 16/17**
Total no. of exemptions registered	4	5			**9**
Total no. of exemptions cancelled during process	0	0			**0**
Total no. of exemptions categorised as Low risk (excludes cancellations)	3	3			**6**
Total no. of exemptions categorised as Medium risk (excludes cancellations)	1	2			**3**
Total no. of exemptions categorised as High risk	0	0			**0**

Fig.3 - Exemptions by Service Area

Complete Fiscal Year 15/16 (excludes cancelled Exemptions) and Q1 & 2 2016/17

Exemptions to Contract Standing Orders by Service Area (April 2015 - March 2016)	No.	No. Low / Medium Risk	No. High Risk
BSP	6	5	1
CHASC - Adult Social Care	1	1	0
CHASC - Communities	2	2	0
CHASC - Public health	2	3	0
CYP - Learning, Skills & Prevention	4	4	0
TEE - Environment	2	2	0
Totals	**17**	**17**	**1**

Exemptions to Contract Standing Orders by Service Area Q1&Q2 (April 2016 - September 2016)	No.	No. Low / Medium Risk	No. High Risk
CHASC - Communities	3	3	0
CHASC - Operations	1	1	0
CHASC - Public Health	1	1	0
CHASC - Strategic Commissioning	1	1	0
HQ - People & Organisational Development	1	1	0
TEE - Environment	1	1	0
TEE - Public Transport	1	1	0
Totals	**9**	**9**	**0**

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Regulatory and Audit Committee

Title:	Annual Enforcement of the Children and Young People (Protection From Tobacco) Act Update
Date:	Wednesday 9 November 2016
Author:	Amanda Poole
Contact officer:	Amanda Poole, 01296 388770
Local members affected:	All

For press enquiries concerning this report, please contact the media office on 01296 382444

Summary

This Committee has historically considered activity undertaken to prevent underage sales of cigarettes and nicotine delivery systems under a statutory requirement to consider enforcement activity in this area.

Following the implementation of the Joint Trading Standards Service with Surrey County, the Joint Committee which oversees the Joint Service (which comprises of the relevant Cabinet Member from Buckinghamshire County Council, Cllr Martin Phillips, and the relevant Cabinet Member from Surrey County Council, Cllr Richard Walsh) now considers activity in this area to comply with the Statutory Requirement.

This report is being brought for information at the request of the Regulatory and Audit Committee and covers the work of the Service in relation to tobacco in Buckinghamshire from April 2015 to March 2016.

Recommendation

It is recommended that the committee note this report. No decision is required.

Supporting information

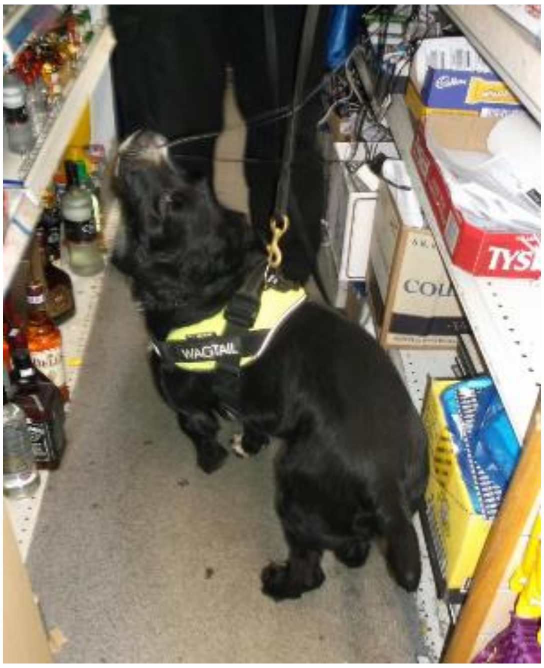
There has been little change in the approach of the Service to this work in the past year. The work to protect young people from tobacco continues to support the Public Health strategy of the authority, and continues to use intelligence to target the Service's interventions and work. The Service continues to work with partners on this work in support of achieving our aim to improve the health and wellbeing of people and communities.

Smoking rates in under 18's are broadly falling, and complaints to the Service regarding under age sales of cigarettes also continue to fall with 6 'under age sale' complaints received between April 2015 and March 2016.

Therefore the Service's work in this area reflects the changing threats. Illicit tobacco is considered a notable threat because, in addition to the wider issues of fairness to other retailers and the impact on the exchequer of lost duty, its lower cost makes smoking more accessible to young people and therefore it might encourage smoking where a higher cost would usually make it prohibitively expensive.

Illicit tobacco may be counterfeit and/or illegally imported. Usually no duty has been paid, and warning messages are not correctly presented. The lack of the correct warnings might also contribute to illicit tobacco appealing to under age smokers.

As with the previous year, in February 2016 the Service worked with Her Majesty's Revenue and Customs and Wagtail UK Ltd on an operation to identify sellers of illicit tobacco. Wagtail UK Ltd provide specialist detection dogs, including Buster below, who are able to sniff out hidden tobacco.



Officers visit premises identified through intelligence as being at higher risk of selling illicit tobacco with a sniffer dog, which then indicates where tobacco is hidden. In the most recent operation of this kind, 10 premises were visited and illicit tobacco was found at two premises; in a filing cabinet in a storage room and under and by the counter. In previous similar operations illicit tobacco has been found in a light fitting and behind a panel of a wall.

Following investigation by the Service one of these cases, where the value of the illicit tobacco found was estimated at £1350, was considered by Court in October 2016. The shop keeper was found guilty of two offences and was fined £600.

The second of these cases is still going through the judicial process.

Separate to the judicial process, licence reviews are often carried out where it has been shown that a trader has sold illicit tobacco.

Other work carried out in 2015/16 included carrying out visits to a small sample of shops to assess compliance with tobacco related legislation, including the display of statutory warning notices and the requirements for tobacco to be kept hidden from view. No problems with compliance with either of these provisions were found and no concerns were raised by traders. These visits also provided an opportunity to discuss under age sales, and appropriate advice was given (such as how to use refusals logs) to help traders to comply with the law in this respect.

Local Member implications

Data and intelligence collected by the Service over the last twelve months continues to indicate that no particular geographical areas within the County present particular cause for concern. Should this change, the local Members will be advised appropriately.

Background Papers

Children and Young Persons (Protection from Tobacco) Act 1991
Better Regulation Delivery Office Code of Practice for Regulatory Delivery on Age Restricted Products and Services Health Act 2006
The Tobacco Products (Manufacture, Presentation and Sale) (Safety) (Amendment) Regulations 2007
Criminal Justice and Immigration Act 2008
Health Act 2009
Regulation of Investigatory Powers Act 2000 Revised Codes of Practice
The Children and Family Act 2014
The Nicotine Inhaling Products (Age of Sale and Proxy purchasing) Regulations 2015/895
The Smoke Free (Private Vehicles) Regulations 2015
Standardised Packaging of Tobacco Products regulations 2015
The Tobacco Advertising and Promotion (Display)(England) Regulations 2010
Healthy Lives, healthy people: a tobacco control plan for England [9 March 2011]
Buckinghamshire Health and Wellbeing Strategy 2013-16
(Copies may be obtained from Contact Officer.)

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Regulatory and Audit Committee

Title: Risk Management Group Update

Date: Wednesday 9 November 2016

Author: Maggie Gibb, Head of Business Assurance (& Chief Internal Auditor)
Contact officer: Maggie Gibb, 01296 387327

Local members affected:

For press enquiries concerning this report, please contact the media office on 01296 382444

Summary

The Risk Management Group (RMG) met on 6 September 2016, and was attended by:

Cllr David Martin (Chair)
Cllr Tim Butcher
Richard Ambrose – Director of Assurance (& Chief Finance Officer/S151)
Maggi Gibb – Head of Business Assurance (& Chief Internal Auditor)
Gill Quinton – Managing Director of Business Services Plus and Business Enterprise

The Director of Environment and Waste Contracts Team Leader attended to present the latest risk register for the Energy from Waste (EfW) contract. The RMG were advised that the full service commenced 22 June 2016 and all terms of the contract were in force. The current risk register details four risks, of which three are rated as red (high) risks. These were discussed in detail including the mitigating actions in place/planned to manage the risks.

The updated Terms of Reference for the RMG was presented and noted.

The Business Unit risk registers for Business Services Plus (BSP), Children's Social Care & Learning (CSC&L) and Communities, Health & Adult Social Care (CH&ASC) were presented and challenged by the RMG. A full review of all risks held in the Corporate Risk Management System had been undertaken by the Business Assurance Team during August. The Head of Business Assurance summarised the key changes which included specific risk updates and the direction of travel of risks. The report also included an overview of the risk management and escalation process within each of the Business Units. It was confirmed that there had been effective engagement from Business Units and Risk Champions.

Recommendation

Members should **note** the report.

Background Papers

Risk Management Group Terms of Reference
Risk Management Group minutes

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Regulatory and Audit Committee

Title: Monitoring of the Annual Governance Statement

Date: Wednesday 9 November 2016

Author: Maggie Gibb, Head of Business Assurance (& Chief Internal Auditor)
Contact officer: Maggie Gibb, 01296 387327

Local members affected:

For press enquiries concerning this report, please contact the media office on 01296 382444

Summary

The 2015/16 Annual Governance Statement was approved by the Regulatory and Audit Committee on 28 July 2016.

The purpose of this report is to update Members on progress against the action plan to address the weaknesses identified in the statement (Appendix 1).

A further update will be presented to the Committee in April 2017.

Recommendation

Members should **note** this report.

Background Papers

2015/16 Annual Governance Statement

2015/16 ANNUAL GOVERNANCE STATEMENT ACTION PLAN AS AT OCTOBER 2016

Governance Issue	Action to be taken	Responsible Officer	Timescale	RAG Status
Business Continuity Plans	Business Continuity Plans to be maintained with reasonable assurance over completeness and application, including through the supply chain.	Resilience Manager	March 2017	
Status: IN PROGRESS A report was presented to the Regulatory and Audit Committee with a status report detailing the completion of BCPs across each of the Business Units. Areas of non-compliance are being highlighted to One Council Board and an updated status report will be presented to Regulatory and Audit Committee in February.				
Financial Management – Financial Control	Actions identified by the Professional Lead to improve the management controls, and actions arising from the 2015/16 Internal Audits to be implemented and tested to ensure confidence in their application and effectiveness.	Director of Assurance / Head of Strategic Finance	March 2017	

Status: IN PROGRESS

Significant progress has been made in addressing the control weaknesses identified during the 2015/16 Internal Audit reviews of the key financial systems. The 2016/17 audits of these areas are now in progress and will be reported to the Regulatory and Audit Committee in April. Current status of audit actions detailed in table below:

Audit Title	Year	High			Medium			Total
		Completed	In Progress	N/A	Completed	In Progress	N/A	
Accounts Payable	2015/16	1	4	-	-	-	-	5
Accounts Receivable	2015/16	5	2	-	3	-	-	10
General Ledger	2015/16	6	5	-	5	3	-	19
Payroll	2015/16	1	5	-	1	4	-	11
Pensions	2015/16	1	2	-	-	2		5

2015/16 ANNUAL GOVERNANCE STATEMENT ACTION PLAN AS AT OCTOBER 2016

Governance Issue	Action to be taken	Responsible Officer	Timescale	RAG Status
Embedding the Operating Framework and system of assurance	Implementing the Assurance Framework with routine reporting to the OCB and the Regulatory and Audit Committee.	Director of Assurance / Chief Auditor	March 2017	
Status: IN PROGRESS The assurance mapping exercises for CH&ASC and CSC&L is in progress and will be complete by December 2016. Reports will be presented to OCB in January.				
Data Quality for the management of cyclical maintenance and inspection of plant and equipment.	Actions identified by the Professional Lead to be implemented and tested to ensure confidence in their application and effectiveness.	Head of Strategic Assets	March 2017	
Status: IN PROGRESS Data and records management process under review with current contractor and is being considered as part of the tender exercise.				
Management oversight of the governance of project and programme management.	Develop the professional lead role to provide the management oversight of programmes and projects; and, develop the support and guidance to management and staff responsible for the delivery of projects.	Programme Management Officer	March 2017	
Status: COMPLETE The Programme Management Officer has developed a comprehensive Project Management Toolkit which has been communicated and well publicised across the whole Council. The Single View of Change captures details of all key projects. This is monitored by the Programme Management Officer and reported to OCB on a regular basis.				

Regulatory and Audit Committee

Title: Public Sector Internal Audit Standards

Date: Wednesday 9 November 2016

Author: Maggie Gibb, Head of Business Assurance (& Chief Internal Auditor)
Contact officer: Maggie Gibb, 01296 387327

Local members affected:

For press enquiries concerning this report, please contact the media office on 01296 382444

Summary

The Public Sector Internal Audit Standards (PSIAS), which took effect from the 1 April 2013, provide a consolidated approach across the whole of the public sector providing continuity, sound corporate governance and transparency.

The Standards require all internal audit activities to implement and retain an 'Internal Audit Charter'. The purpose of the Internal Audit Charter is to formally define the internal audit activity's purpose, authority and responsibility.

The absence of an Internal Audit Charter was highlighted as an area of non-conformance with the PSIAS in the 2015/16 Annual Governance Statement.

A key element of the Internal Audit Charter is the clarification of roles and responsibilities:

- *Regulatory and Audit Committee* - the governance group charged with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting.
- *The Audit Board* – the highest level of governing body charged with the responsibility to direct and/or oversee the activities and management relating to internal audit. For BCC this shall mean the creation of an Audit Board comprising of the Director of Assurance (S151 Officer), Director of Strategy and Policy (Monitoring Officer) and Head of Business Assurance (Chief Auditor).

Appendix 1 – Internal Audit Charter
Appendix 2 – Audit Board Terms of Reference

Recommendation

Members are asked to **APPROVE** the Internal Audit Charter and Terms of Reference for the Audit Board.

Background Papers

Public Sector Internal Audit Standards
Internal Audit Charter

Buckinghamshire County Council

INTERNAL AUDIT CHARTER

Head of Business Assurance (& Chief Internal Auditor)

Date Produced: September 2016

Date for Review: September 2017

1. Introduction

1.1 The Public Sector Internal Audit Standards (PSIAS), which took effect from the 1 April 2013, provide a consolidated approach across the whole of the public sector providing continuity, sound corporate governance and transparency.

1.2 The Standards require all internal audit activities to implement and retain an 'Internal Audit Charter'. The purpose of the Internal Audit Charter is to formally define the internal audit activity's purpose, authority and responsibility.

2. Authority

2.1 The requirement for an Internal Audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

'undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.

2.2 The standards for 'proper practices' in relation to internal audit are laid down in the Public Sector Internal Audit Standards 2013 ('the Standards').

3. Purpose

3.1 Internal Audit plays a vital role in assisting Buckinghamshire County Council (BCC) in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organisation's risk management, control, and governance processes.

3.2 The role of Internal Audit is best summarised through its definition within the Standards, as an:

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

3.3 In addition, the Council's Chief Finance Officer has a statutory duty under Section 151 of the Local Government Act 1972 to establish a clear framework for the proper administration of the authority's financial affairs. The S151 officer relies, amongst other sources, upon the work of internal audit in reviewing the operation of systems of internal control and financial management.

4. Definitions

4.1 For the purposes of this charter, the following definitions shall apply:

Regulatory and Audit Committee - the governance group charged with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting.

The Board – the highest level of governing body charged with the responsibility to direct and/or oversee the activities and management relating to internal audit. For BCC this shall mean the Audit Board comprising of the, Director of Assurance (S151 Officer), Director of Strategy and Policy (Monitoring Officer) and Head of Business Assurance (& Chief Internal Auditor).

Senior Management – those charged with responsibility for the leadership and direction of BCC, this shall mean members of One Council Board (OCB) which comprises the Chief Executive and Managing Directors, including the Monitoring

Officer and Section 151 Officer.

5. Responsibility

5.1 The Chief Internal Auditor is responsible for effectively managing the internal audit activity in accordance with the *'Definition of Internal Auditing'*, the *'Code of Ethics'* and *'the Standards'*.

5.2 Accountability for responding to Internal Audit reports and advice lies with Senior Management. The Chief Internal Auditor must be satisfied that Senior Management accept accountability for, and provide an adequate response to, issues raised through Internal Audit's work. When the Chief Internal Auditor is not satisfied, the matter will be escalated to the Board and relevant OCB members or Regulatory and Audit Committee, as appropriate.

6. Position in the Organisation

6.1 The Chief Internal Auditor reports functionally to the Board, and organisationally to the Director of Assurance (and Chief Finance (S151) Officer).

6.2 The Chief Internal Auditor has direct access to the Chief Executive who carries the responsibility for the proper management of BCC and for ensuring that the principles of good governance are reflected in sound management arrangements.

6.3 Where it is considered necessary to the proper discharge of the Internal Audit function, the Chief Internal Auditor has direct access to the Chairman (and other members as appropriate) of the Regulatory and Audit Committee.

7. Internal Audit Resources

7.1 The Chief Internal Auditor will be professionally qualified (CMIIA, CCAB or equivalent) and have wide internal audit and management experience, reflecting the responsibilities that arise from the need to liaise internally and externally with members of the Regulatory and Audit Committee, the Board, Senior Management and other professionals.

7.2 The Director of Assurance (and Chief Finance (S151) Officer) will provide the Chief Internal Auditor with the resources necessary to fulfil BCC's requirements and expectations as to the robustness and scope of the internal audit opinion.

The Chief Internal Auditor will ensure that the Internal Audit service has access to an appropriate range of knowledge, skills, qualifications and experience required to deliver the Audit Charter and Annual Audit Strategy and Plan.

7.3 The Annual Audit Strategy and Plan (known as the Business Assurance Strategy at BCC) will identify the resources required to complete the work, thereby highlighting sufficiency of available resources. The Chief Internal Auditor can propose an increase in audit resource or a reduction in the number of audits if there are insufficient resources.

7.4 Senior Management and the Board will be advised where, for whatever reason, Internal Audit is unable to provide assurance on any significant risks within the timescale envisaged by the risk assessment process. The Annual Audit Strategy and Plan will be submitted to Senior Management, the Board and the Regulatory and Audit Committee, for endorsement. The Chief Internal Auditor will be responsible for delivering the plan.

7.5 The plan will be kept under review to ensure it remains responsive to the changing priorities and risks of BCC. Significant matters that jeopardise the delivery of the plan or require changes to the plan will be identified, addressed and reported to the Board, Senior Management, and the Regulatory and Audit Committee as appropriate.

8. Independence and Objectivity

8.1 Internal Auditors must be sufficiently independent of the activities they audit to enable them to provide impartial, unbiased and effective professional judgements and advice. Internal Auditors must maintain an unbiased attitude and ensure that no quality compromises are made. Objectivity requires that Internal Auditors do not subordinate their judgement on audit matters to others.

8.2 To achieve the degree of independence and objectivity necessary to effectively discharge its responsibilities, arrangements are in place to ensure the Internal Audit activity:

- retains no executive or operational responsibilities;
- operates in a framework that allows unrestricted access to Senior Management, the Board and Chair of the Regulatory and Audit Committee;
- reports functionally to the Board;
- reports in their own name;
- rotates responsibilities for audit assignments within the Internal Audit team, where possible; and
- ensures the planning process recognises and addresses potential conflicts of interest through Internal Audit staff not undertaking an audit for at least two years in an area where they have had previous operational roles.

8.3 If independence or objectivity is impaired in fact or appearance, the details of the impairment will be disclosed to Senior Management and the Board. The nature of the disclosure will depend upon the impairment.

8.4 The Chief Internal Auditor will confirm to the Regulatory and Audit Committee, at least annually, the organisational independence of the internal audit activity.

9. Due Professional Care

9.1 Internal Auditors will perform work with due professional care, competence and diligence. Internal Auditors cannot be expected to identify every control weakness or irregularity but their work should be designed to enable them to provide reasonable assurance regarding the controls examined within the scope of their review.

9.2 Internal Auditors will have a continuing duty to develop and maintain their professional skills, knowledge and judgement based on appropriate training, ability, integrity, objectivity and respect. Internal Auditors will apprise themselves of the ‘Definition of Internal Auditing’, the ‘Code of Ethics’ and the ‘Standards’ and will work in accordance with them in the conduct of their duties.

9.3 Internal Auditors will be alert to the possibility of intentional wrongdoing, errors and omissions, poor value for money, failure to comply with management policy and conflicts of interest. They will ensure that any suspicions of fraud, corruption or improper conduct are promptly reported to the Chief Internal Auditor.

9.4 Internal Auditors will treat the information they receive in carrying out their duties as confidential. There will be no unauthorised disclosure of information unless there is a legal or professional requirement to do so. Confidential information gained in the course of Internal Audit work will not be used to effect personal gain.

10. Scope of Internal Audit Activities

10.1 The Annual Audit Strategy and Plan will be developed based on a prioritisation of the audit universe and reference to the Strategic Risk Register. The plan is also informed through discussion with the Managing Directors, Finance Directors, Director of Assurance, Monitoring Officer and the Chief Executive. Prior to submission to the Regulatory and Audit Committee for approval, the plan will be discussed with appropriate Senior Management and the Board. Quarterly meetings with the Directors are scheduled to ensure the plan is kept under continuous review. Any significant deviation from the approved internal audit plan will be communicated through the periodic activity reporting process.

10.2 A range of Internal Audit services are provided (Annex 1) to form the annual opinion. The approach is determined by the Chief Internal Auditor and will depend on the level of assurance required, the significance of the objectives under review to the organisations success, the risks inherent in the achievement of objectives and the level of confidence required that controls are well designed and operating as intended.

10.3 Internal Audit may perform consulting and advisory services related to governance, risk management and control as appropriate for the organisation. It may also evaluate specific operations at the request of the Board or management, as appropriate.

10.4 The Chief Internal Auditor will meet regularly with the external auditors to consult on audit plans, discuss matters of mutual interest and to seek opportunities for cooperation in the conduct of audit work. The external auditors will have the opportunity to rely on the work of Internal Audit where appropriate.

11. Fraud and Corruption Responsibilities

11.1 The primary responsibility for the prevention and detection of fraud, corruption and theft rests with Managing Directors, Directors and Service Managers.

11.2 All suspicions of theft, fraud and irregularity should be reported to the Chief Internal Auditor, in accordance with the Anti-Fraud and Corruption Strategy. This will enable the adequacy of the relevant controls to be considered, the implication of the fraud on the risk management, control and governance processes to be evaluated and any management actions to be agreed.

11.3 Internal Audit will investigate the more complicated or large cases of suspected fraud and other irregularities. In some cases, an allegation may be of a routine or minor nature that can be dealt with by service management. All investigations however should be reported to Internal Audit, who will monitor the investigation, ensuring action is initiated, effectively managed and it is brought to a proper conclusion.

11.4 Internal Audit also facilitate BCC's participation in the National Fraud Initiative (NFI), in which specified data is matched with data supplied from other Local Authorities and external agencies to detect potential fraudulent activity.

12. Access to Relevant Personnel and Records

12.1 In carrying out their duties, Internal Audit (subject to the appropriate vetting and security requirements for access and on production of identification) shall have unrestricted right of access to all records, assets, personnel and premises, belonging to BCC. Internal Audit has authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities. Such access shall be granted on demand and not subject to prior notice.

13. Reporting

Chief Internal Auditor's Annual Report and Opinion

13.1 The Chief Internal Auditor shall produce an Annual Internal Audit Opinion and Report that can be used by the organisation to inform their governance statements. The Annual Internal Audit Report and Opinion will conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The annual report will incorporate as a minimum:

- the opinion;
- a summary of the work that supports the opinion; and
- a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

The Board

13.2 Organisational independence is achieved when the Chief Internal Auditor reports functionally to the Board, who will receive, challenge and monitor the following reports:

- Internal Audit Charter;
- Annual Audit Strategy and Plan;
- Internal Audit budget and resource plan;
- Progress in delivering the Annual Audit Strategy and Plan;
- Internal Audit performance;
- Annual Internal Audit Opinion and Report; and
- Scope, form and results of internal and external assessments, as part of the quality management and improvement plan.

14. Quality Assurance

14.1 The Internal Audit team will work to the Public Sector Internal Audit Standards to maintain consistency in service provision. This requirement will be enforced through appropriate supervision and supervisory/management review of all audit working papers, action plans and audit reports.

14.2 An Effectiveness of Internal Audit questionnaire will be distributed to key contacts at the end of the year to assess the quality and added value of the function, the work undertaken throughout the year and to seek suggestions for improvement. All completed forms will be reviewed by the Chief Internal Auditor and Audit Managers and be included in the Annual Internal Audit Opinion and Report.

14.3. In line with the Standards, external assessment will also be conducted at least once every five years by an external, qualified, independent assessor or assessment team.

15. Ownership of Documentation

15.1 Internal Audit files and working papers, which demonstrate compliance with the Standards are the property of BCC. Internal Audit complies with the data retention policy of the BCC.

16. Review of the Internal Audit Charter

16.1 This charter will be reviewed annually by the Chief Internal Auditor and presented to the Board and Regulatory and Audit Committee for approval.

Assurance Services

a) Risk based audit: in which risks and controls associated with the achievement of defined business objectives are identified and both the design and operation of the controls in place to mitigate key risks are assessed and tested, to ascertain the residual risk to the achievement of managements' objectives. Any audit work intended to provide an audit opinion will be undertaken using this approach.

b) Developing systems audit:

- the plans and designs of systems under development are assessed to identify the potential weaknesses in internal control and risk management; and
- programme / project management controls are assessed to ascertain whether the system is likely to be delivered efficiently, effectively and economically.

c) Compliance audit: in which a limited review, covering only the operation of controls in place to fulfil statutory, good practice or policy compliance obligations are assessed.

d) Quality assurance review: in which the approach and competency of other reviewers / assurance providers are assessed in order to form an opinion on the reliance that can be placed on the findings and conclusions arising from their work.

e) Follow up: Internal Audit will facilitate the organisation's monitoring of implementation of agreed management actions, reporting on progress quarterly to the Board and Regulatory and Audit Committee. If required, individual follow up assignments will be commissioned to review areas that receive a "limited" assurance rating.

f) Fraud and irregularity investigations: Internal Audit may also provide specialist skills and knowledge to assist in or lead fraud or irregularity investigations, or to ascertain the effectiveness of fraud prevention controls and detection processes.

g) Advisory / consultancy services: in which advice can be provided, either through formal review and reporting or more informally through discussion or briefing, on the framework of internal control, risk management and governance. It should be noted that it would not be appropriate for an Internal Auditor to become involved in establishing or implementing controls or to assume any operational responsibilities and that any advisory work undertaken must not prejudice the scope, objectivity and quality of future audit work.

h) Third party assurance: the availability of objective assurance from other assurance providers will be considered in determining audit needs. Where Internal Audit needs to work with the Internal Auditors of other organisations, a practice which is expanding with the development of more organisational strategic partnerships, the roles and responsibilities of each party, as well as billing arrangements, will be clearly defined, agreed and documented prior to the commencement of work. Internal audit will also ensure awareness of and seek to place reliance on the work of other review bodies such as HMIC and HMRC, etc.

Audit Board Terms of Reference

Audit Board Purpose

As set out within Public Sector Internal Audit Standards (PSIAS), Internal Audit activity will operate in a framework that allows unrestricted access to Senior Management, the Audit Board and Chair of the Regulatory and Audit Committee and report functionally to the Audit Board to achieve the degree of independence and objectivity necessary to effectively discharge its responsibilities.

Audit Board Definition

The highest level of governing body charged with the responsibility to direct and oversee the activities and management of the Internal Audit function.

Members

Richard Ambrose, Director of Assurance (S151 Officer)
Sarah Ashmead, Director of Strategy and Policy (Monitoring Officer)
Maggie Gibb, Head of Business Assurance (& Chief Internal Auditor)

Meetings will take place every two months.

Responsibilities

Organisational independence is achieved by the Chief Internal Auditor reporting functionally to the Audit Board. The main responsibilities of the Audit Board are:

- Consulting on and approving the Internal Audit Charter.
- Endorsing the Internal Audit opinions and management action priority wordings.
- Consulting on and approving the Internal Audit Strategy and Annual Plan, including the audit budget and resource requirements.
- Consulting on and endorsing the Annual Internal Audit Report, which includes the Chief Internal Auditor's Opinion on the System of Internal Control.
- Approving any additional and / or external resources required to deliver the Annual Plan.
- Confirming on an annual basis the organisational independence of the Internal Audit function.
- Approving any changes to the agreed Annual Plan content and resource allocation.
- Approving any significant consulting assignments, not already included in the Audit Plan, prior to accepting the engagement.
- Receiving information on Internal Audit's work, purpose, authority, responsibility and performance, relative to its Annual Plan including progress reports on implementation of management actions.
- Receiving information where the Internal Audit function believes that the level of agreed resources will impact adversely on the provision of the Annual Internal Audit opinion.
- Receiving information on any significant risk exposures and control issues, including fraud risks, governance issues and other relevant matters.
- Receiving information where the Internal Audit function concludes that management have accepted a level of risk that may be unacceptable to the organisation.
- Receiving the outcome of the annual self-assessment against the PSIAS requirements (including the Definition of Internal Auditing, Code of Ethics and Standards). Endorsing any agreed non-conformance and overseeing the implementation of any improvements identified.
- Approving the approach and scope of any external assessments. Receiving the outcome of any external assessments, endorsing any agreed non-conformance and overseeing the implementation of any improvements identified.

Buckinghamshire County Council
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Regulatory and Audit Committee

Title:	Forward Plan
Date:	Wednesday 9 November 2016
Author:	Maggie Gibb, Head of Business Assurance (& Chief Internal Auditor)
Contact officer:	Maggie Gibb, 01296 387327
Local members affected:	

For press enquiries concerning this report, please contact the media office on 01296 382444

Summary

Forward plan for Regulatory and Audit Committee meetings.

Recommendation

Members should **note** the report.

Background Papers

Forward Plan

Regulatory & Audit Committee Forward Plan – Forward Plan

Date of meeting	Items
8 February 2017 (prov)	• Business Assurance Update and Audit Action Tracker • Treasury Management Strategy • Effectiveness of Debt Management Strategy • Business Continuity Management Update • Contract Management Application Performance Report • Annual Report on Feedback and Complaints Procedure • Hearing the Customer's View – Annual Report Children and Young People's Social Care • Adult's Social Care Complaints Procedure, Making Experiences Count • Assurance and Risk Strategy • Risk Management Group Update • Forward Plan
9 November 2016	• External Audit Appointment • Treasury Management Update • Contract Standing Orders – Breaches/Exemptions • Annual Enforcement C&YP (Protection from Tobacco) • Report of Chief Surveillance Commissioner • Risk Management Group Update • Annual Governance Statement Action Plan • Public Sector Internal Audit Standards • Forward Plan

Regulatory & Audit Committee Forward Plan – Forward Plan

Date of meeting	Items
21 September 2016	• Future External Audit Arrangements • Business Assurance Update and Audit Action Tracker • Mandatory Training - Compliance Update • Anti-Fraud & Corruption Strategy and Money Laundering Policy • Special Education Needs Update • Bucks Learning Trust Update • Transport for Bucks Update • Forward Plan
28 July 2016	• Audit of Accounts by end of July • Final Annual Governance Statement • Business Assurance Update and Audit Action Tracker • Effectiveness of Debt Management Strategy • Business Continuity Management Update • Risk Management Group update • Forward Plan • Private session with Chief Auditor • Private Session with Grant Thornton

Regulatory & Audit Committee Forward Plan – Forward Plan

Date of meeting	Items
25 May 2016	• Statement of Accounts by end of May • Annual Governance Statement • Annual Report of Chief Auditor • Treasury Management Update • Risk Management Group update • Forward Plan
27 April 2016	• Contract Standing Orders - Exemptions/Breaches • Contract Management Application Update • Whistleblowing Policy - incidents and effectiveness • Outside Bodies Update • 16/17 Draft Business Assurance Strategy (incl. Internal Audit Plan) • Business Assurance Update and Audit Action Tracker • Inspection RIPA Covert Surveillance Inspection • Pension Fund Audit Plan • Bucks Learning Trust Update • Future External Audit Arrangements • Risk Management Group Update • Forward Plan

Buckinghamshire County Council

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Regulatory and Audit Committee

Title:	Treasury Management Update
Date:	Wednesday 9 November 2016
Author:	Richard Ambrose - Director of Assurance
Contact officer:	Julie Edwards – Pensions & Investments Manager Telephone (01296) 383910
Local members affected:	

For press enquiries concerning this report, please contact the media office on 01296 382444

Summary

The Council is required to report to members on the current year's treasury management. It was agreed that a mid-year report on treasury management would be reported to Regulatory and Audit Committee prior to reporting to County Council as required by the CIPFA Code of Practice on treasury management in the public sector.

Local authorities are also required to prepare an annual Minimum Revenue Provision (MRP) Statement as part of the Treasury Management Strategy. Appendix 2 to this report sets out a proposed change to the policy for 2016/17, in respect of unfunded capital expenditure incurred before 1 April 2008. This change will require Full Council approval.

It is proposed to change the MRP policy for pre 2008 debt from a 4% reducing balance basis to a straight line basis over 50 years from 1 April 2016 as a prudent basis over which to repay debt:

- The approach has a beneficial impact on the Council's overall budget position with an initial saving in 2016/17 of £3.564m and a saving of £15.8m over the first 5 years;
- Moving to a straight-line basis will ensure that all debt is paid-off over this period; unlike the existing method whereby where £30m or 18% of debt remains un-provided for;
- This is in line with the estimated average age of this group of assets;
- There is sufficient capacity in the capital programme to maintain the assets going forward to ensure that they will continue to be operational for at least another 50 years;
- The straight-line basis provides consistency and certainty for forward planning within the MTP in respect of pre-2008 unfunded capital expenditure fixed at £3.6m per annum.

Recommendations

The Committee RECOMMENDS to Council the Treasury Management Update Report and the Prudential Indicators for 2016/17to 2019/20.

The Committee RECOMMENDS to Council a change to the authorised boundary for external debt within Prudential Indicator 3.2 from £250m to £275m in 2016/17.

The Committee RECOMMENDS the proposed change to the MRP policy from a reducing balance basis to a straight line basis over 50 years from 1 April 2016 for the approval of full Council.

Supporting information

1 In line with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Treasury Management revised 2011 and the Council's Financial Regulations (A3.2), this Council is required to provide Regulatory and Audit Committee with a mid-year report on the treasury management activity for the first six months of the financial year.

2 The Code of Practice defines Treasury Management as:

The management of the organisation'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.

Treasury Management Strategy

3 The Council approved the 2016/17 treasury management strategy at its meeting on 18 February 2016. The general policy objective for this Council is the prudent investment of its treasury balances. The Council's investment priorities are the security of capital and liquidity of its investments. The Council will aim to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity. The effective management and control of risk are prime objectives of the Council's treasury management activities. In exceptional circumstances, where investments do not meet this criteria, decisions on investments will be delegated to the Director of Assurance in consultation with both the Leader of the Council and the Cabinet Member for Resources, or where considered appropriate will be referred to Cabinet for such a decision.

4 All treasury management activity undertaken during the period complied with the approved strategy, the CIPFA Code of Practice and the relevant legislative provisions. There were no investments placed which resulted in a breach of the investment strategy.

Debt Management Strategy

5 The Council's borrowing objectives are:

- To minimise the revenue costs of debt whilst maintaining a balanced loan portfolio.
- To manage the Council's debt maturity profile, leaving no one future year with a disproportionate level of repayments.
- To maintain a view on current and possible future interest rate movements and borrow accordingly.
- To monitor and review the balance between fixed and variable rate loans against the background of interest rate levels and the Prudential Indicators.

Economic Review

6 The first estimate of the third quarter Gross Domestic Product (GDP) released on the 27th October by the ONS showed the UK economy growing by 0.5% over the quarter and 2.3% year-on-year. Both these figures were slightly above market expectations as the UK economic outlook changed significantly on 23rd June 2016 following the surprise result of the referendum on the UK's membership of the EU. The August Quarterly *Inflation Report* from the Bank of England forecasts a rise in Consumer Price Inflation (CPI) to 0.9% by the end of calendar 2016 and thereafter a rise closer to the Bank's 2% target over the coming year due to the expectation that inflation will increase due to a rise in import prices, dampening real wage growth and real investment returns. On 18th October it was reported that CPI rose by 1% in the year to September 2016, the main contributors were rising prices for clothing, overnight hotel stay and motor fuel. These upward pressures were partially offset by falls in air fares and food prices.

Outlook for Interest Rates

7 The subsequent political turmoil following the outcome of the referendum prompted a sharp decline in household, business and investor sentiment. The repercussions of this plunge in sentiment on economic growth were judged by the Bank of England to be severe, prompting the Monetary Policy Committee to initiate substantial monetary policy easing at its August meeting to mitigate the worst of the downside risks. This included a cut in Bank Rate to 0.25%, further gilt and corporate bond purchases (QE) and cheap funding for banks (Term Funding Scheme) to maintain the supply of credit to the economy. Since the onset of the financial crisis over eight years ago, Arlingclose's, the Council's treasury advisor, outlook for the Bank Rate has progressed from 'lower for longer' to 'even lower for even longer' to, now, 'even lower for the indeterminable future'.

Interim Performance Report

8 During the first three months of 2016/17 Buckinghamshire County Council invested cash balances in short term deals or liquidity accounts in anticipation of the payment due in respect of the Energy from Waste (EfW) Plant. The Council paid a single bullet payment of £180m plus £36m VAT, which has been reclaimed, in June 2016 in respect of the EfW Plant. As reported to members previously this was financed by a combination of borrowing, earmarked reserves and cash investments, subsequently the Council's average day to day cash balances reduced from £200m to £30m. As at 30 September 2016 investments totalled £35.7m, the average rate of return on these investments is 0.82%. These include two £5m investments placed at higher rates during 2013 and 2014 which will mature in 2017 and £5m invested in the CCLA property fund.

9 Loans outstanding totalled £202.9m at 30 September 2016; £79.6m was from the Public Works Loan Board (PWLB), £82m from the money markets, £40m temporary borrowing and £1.3m accrued interest. The forecast outturn for interest payments on external debt is on target compared to the budget of £10m. During the six months to 30 September £866,000 was repaid to the PWLB, a further debt principal repayment of £866,000 was made on 1 October 2016 and a further payment of £10m is due to be paid on 14 February 2017, reducing the long term outstanding loans to £152.0m. There has been no new long term borrowing during the six months to 30 September 2016. Arlingclose advised that with short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective to borrow short-term loans initially. On 30 September, the Council had 7 short term loans in place ranging in value from £2m to £10m, with maturities from 1 month to 6 months. The Council continues to be aware of

the potential to restructure debt, but there are unlikely to be opportunities in the prevailing interest rate environment.

10 Each year, the Council agrees Prudential Indicators under the Local Government Act 2003 which are affordable, prudent and sustainable, the indicators 2015/16 to 2017/18 were agreed by County Council at its meeting on 18 February 2016. Revisions to 3.3 the operational boundary for external debt 2016/17 and 4.4 the upper limit of variable fixed rate of borrowing 2016/17 were approved by County Council on 26 May 2016. Appendix 1 shows the approved Prudential Indicators for 2016/17 to 2019/20 along with the Prudential Indicator forecast for 2016/17. It is proposed that a change to the Prudential Indicator 3.2 from £250m to £275m in 2016/17 is taken to full Council for approval. This will enable the Council to further invest in Commercial properties to provide additional revenue income in 2016/17 with the full year effect in 2017/18.

11 Local authorities are required to prepare an annual Minimum Revenue Provision (MRP) Statement that is approved by Full Council as part of the Treasury Management Strategy. This report sets out a proposed change to the policy for 2016/17, in respect of unfunded capital expenditure incurred before 1 April 2008. This change will require Full Council approval. Appendix 2 provides further background about the review of the MRP policy.

12 It is proposed to change the MRP policy for pre 2008 debt from a 4% reducing balance basis to a straight line basis over 50 years from 1 April 2016 as a prudent basis over which to repay debt:

- The approach has a beneficial impact on the Council’s overall budget position with an initial saving in 2016/17 of £3.564m and a saving of £15.8m over the first 5 years;
- Moving to a straight-line basis will ensure that all debt is paid-off over this period; unlike the existing method whereby where £30m or 18% of debt remains un-provided for;
- This is in line with the estimated average age of this group of assets;
- There is sufficient capacity in the capital programme to maintain the assets going forward to ensure that they will continue to be operational for at least another 50 years;
- The straight-line basis provides consistency and certainty for forward planning within the MTP in respect of pre-2008 unfunded capital expenditure fixed at £3.6m per annum.

Resource implications

The impact of the change to the MRP Policy would be a saving to the General Fund in 2016/17 of £3.564m and a saving of £15.8m over the first 5 years. Over 50 years there is an increase in the charge to the General Fund but this does not take into account the time-value of money.

Legal implications

The publication of a mid-year treasury report conforms to best practice as required by the 2011 edition of the CIPFA Treasury Management in the Public Services: Code of Practice.

Other implications/issues

Not applicable.

Feedback from consultation, Local Area Forums and Local Member views (if relevant)

Not applicable.

Background Papers

Treasury Management Strategy Report to County Council 18 February 2016
http://moderngov/ieListDocuments.aspx?CId=107&MId=6704&Ver=4

Treasury Management Annual Report 2015/16 to County Council 26 May 2016
http://moderngov/documents/g6706/Public%20reports%20pack%2026th-May-2016%2009.30%20County%20Council.pdf?T=10

Appendix 1

PRUDENTIAL INDICATORS ESTIMATES 2016/17 to 2019/20

1. BACKGROUND

1.1. The prudential framework for local authority capital investment was introduced through the Local Government Act 2003. The key objectives of the Prudential Code are to ensure that the capital investment plans of local authorities are affordable, prudent and sustainable. A further objective is to ensure that treasury management decisions are taken in accordance with good professional practice.

1.2. Local Authorities are required to have regard to the Prudential Code when carrying out their duties under Part 1 of the Local Government Act 2003. To demonstrate compliance the Code sets prudential indicators designed to support and record local decision making.

1.3. The purpose of this report is to provide an update on the indicators approved by Council earlier this year, and to estimate the position for the period 2016/17 to 2019/20. The report describes the purpose of each of the indicators and the values and parameters for Buckinghamshire County Council. Monitoring of the Prudential Indicators takes place throughout the year, a mid-year and annual report are reported to Regulatory & Audit Committee and Council.

2. CAPITAL EXPENDITURE INDICATORS

2.1. CAPITAL EXPENDITURE

This indicator is required to inform the Council of capital spending plans for the next three years. It is the duty of a local authority to determine and keep under review the amount that it can afford to allocate to capital expenditure.

The estimates of gross capital expenditure to be incurred for the current and future years is summarised below:

Table 2.1.1 Capital Expenditure 2016/17 – 2019/20

Indicator	Unit	Revised Estimate 2016/17 as at 30 Sept 2016	2016/17	2017/18	2018/19	2019/20
Revised Capital Programme	£000	**309,562**	311,453	90,585	65,484	48,216
EfW technical adjustment*	£000	**-159,691**	-159,691	-	-	-
Estimates of capital expenditure	£000	**149,871**	151,762	90,585	65,484	48,216

*Actual expenditure is presented after a technical adjustment for the EfW plant as an asset under construction. As a result the estimate of capital expenditure is different to the Council approved capital programme which incorporates the EfW plant on the basis of when payment falls due. £36,057k (2013/14), £79,314k (2014/15) and £44,061 (2015/16) have previously been capitalised giving an overall total of £159,691m in respect of the EfW plant prior to 2016/17.

Table 2.1.2 Capital Expenditure 2016/17-2019/20 approved by Council on 18 February 2016

Indicator	Unit	Actual 2015/16	2016/17	2017/18	2018/19	2019/20
Approved Capital Programme	£000	**82,139**	254,726	90,585	65,484	48,216
EfW technical adjustment*	£000	**44,061**	-180,000	-	-	-
Estimates of capital expenditure	£000	**126,155**	74,726	90,585	65,484	48,216

The Approved estimate of capital expenditure for 2016/17 has been updated to reflect the revised budget (inclusive of carry forwards) as reported to Cabinet in June 2016 and the Property Investment Programme agreed by Cabinet on 12 September 2016. The forecast outturn shows an anticipated £1.9m (0.7%) underspend on the revised capital expenditure budget for the year. The main area of concern is forecasted overspends on property maintenance for both schools and non-schools of £2.514m. This is off-set by around £3m of slippage which could be utilised to accelerate other projects.

The estimate of capital expenditure for 2017/18 to 2019/20 does not reflect any proposed changes as part of the 2016/17 MTP process.

2.2. CAPITAL FINANCING REQUIREMENT

The Capital Financing Requirement measures the Council's underlying need to borrow for capital purposes. This is essentially the Council's outstanding debt, necessary to finance the Council's capital expenditure. The actual debt is dependent on the type and maturity of the borrowing undertaken as well as seeking the optimal cashflow situation (see 5.3). Estimates of the end of year Capital Financing Requirement for the Council for the current and future years, net of repayments are:

Table 2.2.1 Capital Financing Requirement 2016/17 – 2019/20

Indicator	Unit	Revised Estimate 2016/17 as at 30 Sept 2016	Approved Estimate 2016/17	2017/18	2018/19	2019/20
Estimates of capital financing requirement (CFR)	£000	**365,408**	319,777	310,565	301,549	297,047

Authorities can finance schemes in a variety of ways these include;

- The application of useable capital receipts
- A direct charge to revenue
- Application of a capital grant
- Contributions received from another party
- Borrowing

It is only the latter method that increases the Capital Financing Requirement (CFR) of the Council. The 2016/17 – 2019/20 approved profile above reflects prudential borrowing as follows:

- A total of £130m in respect of the Energy from Waste (EfW) Project;
- £2.1m in 2016/17, £2.1m in 2017/18, £2.0m in 2018/19 and £4.5m in 2019/20 in relation to a number of smaller projects including Orchard House, Aylesbury Library, Winslow Car Park and Business Centre; where the business case indicates a return on investment after taking into account borrowing costs.

The revised estimate for 2016/17 has been updated as follows:

- Final cost of the EfW plant was £181.479m; as a result the total Prudential borrowing has been increased to £131.479m
- Three new Commercial properties have been acquired during 2016/17 through prudential borrowing: Liscombe Park £1.672m, Knaves Beech £22.8m; Aylesbury Retail Park £16.2m.
- The CFR has been updated for the proposed change to the MRP policy as detailed at Appendix 2.

The impact of applying these changes to future years CFR is estimated as follows:

Indicator	Unit	Revised Estimate 2016/17 as at 30 Sept 2016	Revised estimate		
			2017/18	2018/19	2019/20
Estimates of capital financing requirement (CFR)	£000	**365,408**	359,506	353,420	351,580

AFFORDABILITY INDICATORS

2.3. RATIO OF FINANCING COSTS TO NET REVENUE STREAM

Purpose of the Indicator

This indicator measures the proportion of the revenue budget that is being allocated to finance capital expenditure. For the General Fund this is the ratio of financing costs of borrowing against net expenditure financed by government grant and local taxpayers.

Estimates of the ratio of financing costs to net revenue stream for the current and future years are:

Table 2.3.1 Ratio of Financing Costs to Net Revenue Stream 2016/17 – 2019/20

Indicator	Unit	Revised Estimate 2016/17 as at 30 Sept 2016	Approved Estimate 2016/17	2017/18	2018/19	2019/20
Estimates of ratio of financing costs to net revenue stream	%	**4.6%**	5.7%	6.0%	5.6%	5.2%

The revised estimate has been updated for the proposed change to the MRP policy as detailed at Appendix 2; and for the forecast outturn on interest payable and interest receivable as at Q2. The update to MRP has not yet been applied to the approved estimates for future years.

2.4. ESTIMATES OF INCREMENTAL IMPACT OF NEW CAPITAL INVESTMENT DECISIONS ON COUNCIL TAX

This is a key affordability indicator that demonstrates the incremental effect of planned capital expenditure and hence any increased or decreased borrowing, on Council Tax.

Table 2.4.1 Estimate of incremental impact of new Capital investment on Council Tax 2016/17 – 2019/20

Indicator	Unit	Revised Estimate 2016/17 as at 30 Sept 2016	Approved Estimate 2016/17	2017/18	2018/19	2019/20
Estimates of the incremental impact of capital investment decisions on Council Tax	£ per Band D Equivalent	**-£12.57**	-£8.75	-£8.06	-£0.43	-£2.26
	%	**-1.08%**	-0.75%	-0.67%	-0.03%	-0.17%

The revised estimate for 2016/17 has been increased due to the investment in new Commercial properties detailed above. This is anticipated to provide additional revenue income in 2016/17 with the full year effect in 2017/18. The update for the new Commercial properties has not yet been applied to the approved estimates for future years.

3. FINANCIAL PRUDENCE INDICATOR

3.1. GROSS DEBT AND THE CAPITAL FINANCING REQUIREMENT

This indicator records the extent that gross external borrowing is less than the capital financing requirement (2.2 above).

This is a key indicator of the Council's prudence in managing its capital expenditure and is designed to ensure that, over the medium term, external borrowing is only for capital purposes. The Council should ensure that gross debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. The values are measured at the end of the financial year.

Where gross debt is greater than the capital financing requirement the reasons for this should be clearly stated in the annual treasury management strategy.

The figures for 2015/16 onwards are based on estimates:

Table 3.1.1 Gross Debt and the CFR 2016/17 – 2019/20

Indicator	Unit	Revised Estimate 2016/17 as at 30 Sept 2016	Approved Estimate 2016/17	2017/18	2018/19	2019/20
Gross Borrowing	£000	**222,000**	215,000	205,000	195,000	185,000
Capital Financing Requirement	£000	**365,509**	319,777	310,565	301,549	297,047

Completion of the EfW plant and investment in the Commercial properties has required additional borrowing during the year. The approved estimate assumed £40m medium term borrowing and £20m short term borrowing to support cash flow, plus £10m of current PWLB loans which will be repaid each year from 2016/17 to 2019/20.

On 30 September, the Council had £40m of temporary loans in place. During the current financial year £11.7m of debt will be repaid relating to the PWLB and it is estimated that £70m temporary borrowing will be required as at 31 March 2017. The forecast external borrowing as at 31 March 2017 is £222m which includes £1.3m accrued interest.

TREASURY AND EXTERNAL DEBT INDICATORS

3.2. AUTHORISED LIMIT FOR EXTERNAL DEBT

The authorised limit for external debt is required to separately identify external borrowing (gross of investments) and other long term liabilities such as covenant repayments and finance lease obligations. The limit provides a maximum figure that the Council could borrow at any given point during each financial year.

Table 3.2.1 Authorised limit for external debt 2016/17 – 2019/20

Indicator	Unit	Revised Estimate 2016/17 as at 30 Sept 2016	Approved Estimate 2016/17	2017/18	2018/19	2019/20
Authorised limit (for borrowing) *	£000	275,000	250,000	240,000	230,000	230,000
Authorised limit (for other long term liabilities) *	£000	15,000	15,000	15,000	15,000	15,000
Authorised limit (for total external debt) *	£000	265,000	265,000	255,000	245,000	245,000

* These limits can only be changed with the approval of the full Council

The authorised limits are consistent with approved capital investment plans and the Council's Treasury Management Policy and Practice documents, but allow sufficient headroom for unanticipated cash movements. The limit will be reviewed on an on-going basis during the year. If the authorised limit is liable to be breached at any time, the Director of Assurance will either take measures to ensure the limit is not breached, or seek approval from the Council to raise the authorised limit. It is proposed that a change to the Prudential Indicator 3.2 from £250m to £275m in 2016/17 is taken to full Council for approval. This will enable the Council to further invest in Commercial properties to provide additional revenue income in 2016/17 with the full year effect in 2017/18.

Table 3.2.2 Authorised limit for external debt 2016/17 – 2019/20 approved by Council on 18 February 2016

Indicator	Unit	Revised Estimate 2015/16	2016/17	2017/18	2018/19	2019/20
Authorised limit (for borrowing) *	£000	270,000	250,000	240,000	230,000	230,000
Authorised limit (for other long term liabilities) *	£000	200,000	15,000	15,000	15,000	15,000
Authorised limit (for total external debt) *	£000	470,000	265,000	255,000	245,000	245,000

* These limits can only be changed with the approval of the full Council

3.3. OPERATIONAL BOUNDARY FOR EXTERNAL DEBT

This is a key management tool for in-year monitoring and is lower than the Authorised Limit as it is based on an estimate of the most likely level of external borrowing at any point in the year. In comparison, the authorised limit is the maximum allowable level of borrowing.

Table 3.3.1 Operational Boundary for External Debt 2016/17 – 2019/20

Indicator	Unit	Revised Estimate 2016/17 as at 30 Sept 2016	Approved Estimate 2016/17	2017/18	2018/19	2019/20
Operational boundary (for borrowing)	£000	**230,000**	250,000	220,000	210,000	200,000
Operational boundary (for other long term liabilities)	£000	**7,500**	7,500	7,500	7,500	7,500
Operational boundary (for total external debt)	£000	**237,500**	237,500	227,500	217,500	207,500

This indicator is consistent with the Council's plans for capital expenditure and financing and with its Treasury Management Policy and Practice document. It will be reviewed on an on-going basis, the operational boundary allows the Council to borrow up to £20m to invest in new assets which will generate an income stream in excess of any borrowing costs.

On 26 May 2016, the operational boundary for 2016/17 was increased to facilitate paying the £180m plus £36m VAT bullet payment relating to the Energy from Waste plant. Arlingclose advised that the Council will need to borrow £70m initially. The strategy is to take several temporary loans.

Table 3.3.2 Operational Boundary for External Debt 2016/17 – 2019/20 approved by Council on 18 February 2016

Indicator	Unit	Revised Estimate 2015/16	2016/17	2017/18	2018/19	2019/20
Operational boundary (for borrowing)	£000	230,000	230,000	220,000	210,000	200,000
Operational boundary (for other long term liabilities)	£000	190,000	7,500	7,500	7,500	7,500
Operational boundary (for total external debt)	£000	420,000	237,500	227,500	217,500	207,500

3.4. ACTUAL EXTERNAL DEBT

This is a factual indicator showing actual external debt for the previous financial year.

The actual external borrowing as at 31 March 2016 was £163.8m which includes £1.4m accrued interest. During the current financial year £11.7m of debt will be repaid relating to the PWLB and it is estimated that £70m temporary borrowing will be required as at 31 March 2017. The forecast external borrowing as at 31 March 2017 is £222m which includes £1.3m accrued interest.

4. TREASURY MANAGEMENT INDICATORS

The prudential code links with the CIPFA Code of Practice for Treasury Management in the Public Services.

The Treasury Management indicator consists of five elements that are intended to demonstrate good professional practice is being followed with regard to Treasury Management. The proposed values and parameters provide sufficient flexibility in undertaking operational Treasury Management.

4.1 SECURITY AVERAGE CREDIT RATING

The Council is asked to adopt a voluntary measure of its exposure to credit risk by monitoring the weighted average rating of its investment portfolio.

Security Average Credit Rating	Actual / Target
Portfolio Average Credit Rating	AA- / A+ or above

For the purpose of this indicator local authorities, which are unrated are assumed to hold an AAA rating.

4.2 HAS THE COUNCIL ADOPTED THE CIPFA TREASURY MANAGEMENT CODE?

The Council has adopted the Code. In line with the Code the Treasury Strategy, the mid year review and the annual review are reported to Cabinet and Council.

Indicator	Unit	Revised Estimate 2016/17 as at 30 September 2016	2016/17	2017/18	2018/19	2019/20
Adoption of the CIPFA Code of Practice for Treasury Management in the Public Services	N/A	Yes	Yes	Yes	Yes	Yes

4.3 UPPER LIMIT OF FIXED RATE BORROWING FOR THE 4 YEARS TO 2019/20

This indicator is set to control the Council's exposure to interest rate risk and the rate is set for the whole financial year. The upper limits on fixed interest rate exposures expressed as an amount will be:

Indicator	Unit	Revised Estimate 2016/17 as at 30 September 2016	2016/17	2017/18	2018/19	2019/20
Fixed interest rate exposure - upper limit *	£000	230,000	270,000	270,000	270,000	270,000

* Any breach of these limits will be reported to the full Council

4.4 UPPER LIMIT OF VARIABLE RATE BORROWING FOR THE 4 YEARS TO 2019/20

This indicator is set to control the Council's exposure to interest rate risk. Here instruments that mature during the year are classed as variable, this includes the Council's Lender Option Borrower Option (LOBO) loans. For LOBO loans, on specified call dates, the lender has the option to increase the interest rate paid on the loan. If the lender exercises this option, then the borrower can agree to pay the revised interest rate or repay the loan immediately. The upper limits on variable interest rate exposures expressed as an amount of the net principal will be:

Table 4.4.1 Upper Limit of Variable Rate Borrowing 2016/17 – 2019/20

Indicator	Unit	Revised Estimate 2016/17 as at 30 September 2016	2016/17	2017/18	2018/19	2019/20
Variable interest rate exposure - upper limit *	£000	140,000	140,000	95,000	82,000	90,000

* Any breach of these limits will be reported to the full Council

Arlingclose, the Council's treasury advisor advised that with short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to borrow short-term loans instead. Instruments that mature during the year are classed as variable, therefore County Council agreed an increase in the variable fixed rate of borrowing at its meeting on 26 May 2016.

Table 4.4.2 Upper Limit of Variable Rate Borrowing 2016/17 – 2019/20 approved by Council on 18 February 2016

Indicator	Unit	Revised Estimate 2015/16	2016/17	2017/18	2018/19	2019/20
Variable interest rate exposure - upper limit *	£000	80,000	100,000	95,000	82,000	90,000

* Any breach of these limits will be reported to the full Council

4.5 MATURITY STRUCTURE OF FIXED RATE BORROWING FOR 2016/17

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

Maturity Structure of Fixed Rate Borrowing	**Revised Estimate 2016/17 as at 30 September 2016**		**2016/17**	
Period	Upper Limit	Lower Limit	Upper Limit	Lower Limit
Under 12 months	45%	0%	45%	0%
12 months and within 24 months	50%	0%	50%	0%
24 months and within 5 years	55%	0%	55%	0%
5 years and within 10 years	60%	0%	60%	0%
10 years and above	100%	20%	100%	20%

These parameters control the extent to which the Council will have large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

4.6 TOTAL PRINCIPAL SUMS INVESTED FOR PERIODS LONGER THAN 364 DAYS

The purpose of this indicator is to control the council's exposure to the risk of incurring losses by seeking early repayment of its investments.

Indicator	**Unit**	**Revised Estimate 2016/17 as at 30 September 2016**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
Total principal sums invested for periods longer than 364 days	£0m	£25m	£25m	£25m	£25m	£25m

With regard to longer term investments the recommendation is to limit sums for periods longer than 364 days to no more than £25m in 2016/17 to 2019/20. Cash balances are anticipated to be low from 2016/17 onwards due to financing the EfW project.

5 <u>CONCLUSION</u>

In approving, and subsequently monitoring, the above prudential indicators the Council is fulfilling its duty to ensure that spending plans are affordable, prudent and sustainable.

Appendix 2

Minimum Revenue Provision – Revised Policy Statement

Summary

Local authorities are required to prepare an annual Minimum Revenue Provision (MRP) Statement as part of the Treasury Management Strategy. This report sets out a proposed change to the policy for 2016/17, in respect of unfunded capital expenditure incurred before 1 April 2008. This change will require Full Council approval.

It is proposed to change the MRP policy for pre 2008 debt from a 4% reducing balance basis to a straight line basis over 50 years from 1 April 2016 as a prudent basis over which to repay debt:

- The approach has a beneficial impact on the Council's overall budget position with an initial saving in 2016/17 of £3.564m and a saving of £15.8m over the first 5 years;
- Moving to a straight-line basis will ensure that all debt is paid-off over this period; unlike the existing method whereby where £30m or 18% of debt remains un-provided for;
- This is in line with the estimated average age of this group of assets;
- There is sufficient capacity in the capital programme to maintain the assets going forward to ensure that they will continue to be operational for at least another 50 years;
- The straight-line basis provides consistency and certainty for forward planning within the MTP in respect of pre-2008 unfunded capital expenditure fixed at £3.6m per annum.

Recommendation as per Treasury Management Report

That the Committee recommends the proposed change to the MRP policy from a reducing balance basis to a straight line basis over 50 years from 1 April 2016 for the approval of full Council.

Minimum Revenue Provision (MRP)

Background

The Council has a duty to make an annual revenue provision in respect of the financing of unfunded capital expenditure. The rules around the MRP are covered by statue and regulations[1]. The guidance sets out that the aim is to ensure that debt is repaid over a period that is reasonably commensurate with the period over which the capital expenditure provides benefits, and it provides a number of options (not exhaustive) by which this could be achieved:

(i) The regulatory method – this is the old system of determining MRP.
This includes making a MRP of 4% of the outstanding debt, amended by Adjustment A (the difference between the credit ceiling and the Capital Financing Requirement on 1st April 2004).

(ii) The CFR method – a simplification of the above and involved setting MRP equal to 4% Capital Financing Requirement at the end of preceding financial year.

(iii) The asset life method – this method requires MRP to be charged over the asset life using equal instalments or annuity calculation. The asset life is determined in the year MRP commences and is not subsequently revised.

(iv) The depreciation method – this requires depreciation accounting to be followed, including impairment should the asset last for a shorter life than originally set.

While Councils are required to have regard to the guidance, they are allowed to set their own policy outside of the options given if it can be demonstrated that this would be prudent. It is for the Council to determine that such provision is prudent.

Current MRP Policy

For unfunded capital expenditure incurred **before** 1st April 2008 the Council currently adopts the Option 1 the 'Regulatory Method'. For unfunded capital expenditure incurred **after** 1st April 2008 MRP is currently based on Option 3, the asset life method.

As at 1 April 2016, the Council had an outstanding capital financing requirement on unfunded capital expenditure incurred prior to 1 April 2008 of £180.462m. Under the current policy the total MRP charge to the General Fund budget in 2016-17 is expected to be approximately £7.599m of which £7.173m is in relation to debt incurred prior to 1 April 2008.

The purpose of this report is to propose an amendment to the policy for unfunded capital expenditure incurred **before** 1 April 2008.

Review of MRP

It is not possible to allocate the Council's outstanding pre 2008 debt to specific assets. The review of MRP policy has therefore considered the period over which capital expenditure on the largest block of assets Schools, provides benefit, by looking at a sample of 40 schools revalued in 2015/16. The calculation of the revised MRP has then been undertaken in line with the DCLG guidance on the equal instalment method issued in 2012.

The review has concluded that a 50 year life or 2% straight-line basis is a prudent basis over which to repay debt:

- This is in line with the estimated average age of this group of assets
- There is sufficient capacity in the capital programme to maintain the assets going forward to ensure that they will continue to be operational for at least another 50 years

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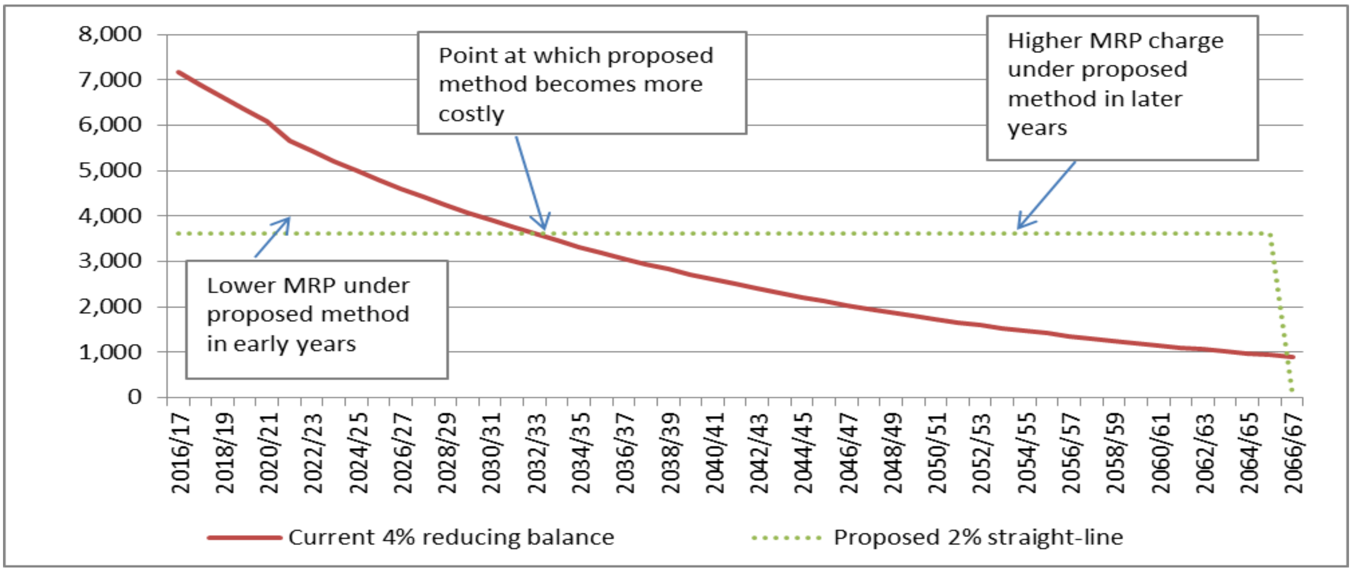
[1] The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 and the DCLG document, Capital Finance Guidance on Minimum Revenue Provision (February 2012)

- Moving to a straight-line basis will ensure that all debt is paid-off over this period; unlike the existing method whereby where £30m or 18% of debt remains un-provided for (see below);
- The approach has a beneficial impact on the Council's overall budget position in the first fifteen years of implementation
- The straight-line basis provides consistency and certainty for forward planning within the MRP in respect of pre-2008 unfunded capital expenditure fixed at £3.6m per annum.
- This approach is consistent with the approach taken by other Local Authorities who have reviewed their MRP provisions.
- The change to MRP policy will result in a permanent reduction in the budget from the current MTP budget of approx. £3.7m. Although the proposed change results in a higher charge in later years, the modelling in later years does not take account of the time value of money.

The graph below models the proposed change moving from the current 4% reducing balance to 2% straight-line from 1 April 2016.



The table below summarises the impact of the proposed change.

	Impact of change in MRP policy
Remaining CFR on unfunded capital expenditure incurred prior to 1 April 2008	£180.462m
MRP in respect of pre-2008 debt on current policy	£7.173m
Revised MRP charge 50 year straight line from 2016	£3.609m
Budget reduction from current budget	-£3.564m
Saving over 5 years from proposed revised policy	-£15.8m
Saving over 10 years from proposed revised policy	-£24.5m
Year at which method becomes more costly than 4% reducing balance	2033/34

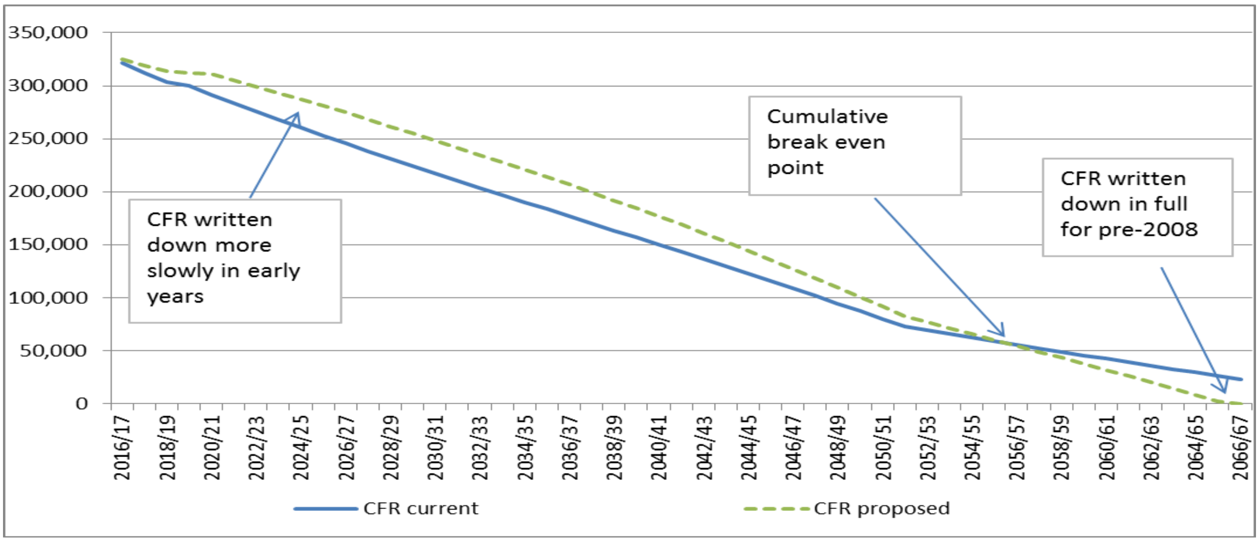
The recommended option is to change the MRP basis to straight line over 50 years from 1 April 2016. This:

- Reflects a prudent estimate of the period of time over which benefit is obtained from the asset.
- Has the most beneficial impact on the Council's overall budget position in the first fifteen years of implementation.

Impact on the Capital Financing Requirement ('CFR')

The CFR is the total amount of capital expenditure that has not yet been financed from resources such as capital grants, capital receipts or MRP, and represents the total amount of prudential borrowing. The CFR is written down more slowly under the proposed straight line method (as annual MRP is lower) until 2056-57 (the cumulative break even point), at which point the annual charge is greater than the existing method.

The graph shows the entire capital financing requirement including the EfW financing and other post 2008 unfinanced capital expenditure as at 1 April 2016 but excluding any activity during 2016/17.



Overall the change to MRP has only a small impact on the CFR. Using the straight line basis ensures that the CFR is written down in full within the specified timeframe which is considered a more prudent approach overall. In contrast, by year 50, the 4% reducing balance method still has approx. 18% or (£30 m) of the total debt from day one, still to write down.

Resource implications

The impact of this change would be a saving to the General Fund in 2016/17 of £3.564m and a saving of £15.8m over the first 5 years. Over 50 years there is an increase in the charge to the General Fund but this does not take into account the time-value of money.

Legal implications

None

Other implications/issues

None

Feedback from consultation, Local Area Forums and Local Member views (if relevant)

None

Background Papers

Appendix 3 Treasury Management Policy Statement Extract MRP Statement 2016/17

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61 The total amount borrowed will not exceed the authorised borrowing limit. The maximum period between borrowing and expenditure is expected to be two years, although the Council is not required to link particular loans with particular items of expenditure.

Minimum Revenue Provision Policy Statement

62 Prior to 2008/09, the Council in accordance with legislation made a contribution from revenue to cover 4% of the unfinanced borrowing that has been undertaken to support the capital programme. This contribution is called the Minimum Revenue Provision (MRP).

63 The Secretary of State under section 21(1A) of the Local Government Act 2003 issued guidance on the calculation of MRP in February 2008, 2008/09 was the first year of operation.

64 Where capital expenditure was incurred before 1 April 2008 MRP will continue to be charged at the rate of 4% of the outstanding Capital Financing Requirement, in accordance with the guidance. For capital expenditure incurred on or after 1 April 2008 and funded through borrowing, the Council will calculate MRP using a more complex calculation called the asset life annuity method. Using this method MRP is calculated in a similar way as calculating the capital repayment element of a fixed rate repayment mortgage.

65 In accordance with provisions in the guidance, MRP will be first charged in the year following the date that an asset becomes operational.

66 Certain expenditure reflected within the debt liability at 31st March 2008 will under delegated powers be subject to MRP using the asset life annuity method, which will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure.

67 The asset life annuity method calculation requires estimated useful lives of assets to be input in to the calculations. These life periods will be determined under delegated powers to the Director of Assurance, with regard to the statutory guidance.

68 However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the asset life annuity method would not be appropriate.

69 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 only be

divided up in cases where there are two or more major components with substantially different useful economic lives.

Background Papers

CIPFA Code of Practice on Treasury Management in the Public Service revised 2011
DCLG Guidance on Local Government Investments revised in 2010
Communities and Local Government Guidance on Minimum Revenue Provision issued February 2008.

Director of Assurance
3 February 2016

Document is Restricted