

Swindon Borough Council

Audit Committee

Tuesday, 6 February 2018

Committee Room 6, Civic Offices

At 6.00 p.m.

Conservative Councillors

Steve Weisinger
(Chair)
Malcolm Davies
Mary Friend
Nick Martin

Labour Councillors

John Ballman
Des Moffatt
Kevin Small

Committee Officer: Iain Tucker (01793 463605)

email: itucker@swindon.gov.uk

Swindon Borough Council, Civic Offices, Euclid Street, Swindon, SN1 2JH
(Telephone 01793 445500)

Access Arrangements - The venue is wheelchair accessible and an infrared receiver hearing system is provided. If you have any special requirements to enable you to attend the meeting or would like to receive any of the pages contained in this agenda in a larger print size, please contact the Committee Officer as soon as possible prior to the date of the meeting.

AGENDA

PART 1 (PUBLIC ITEMS)

1. Apologies for Absence

2. Declarations of Interest

Members are requested at the start of the meeting to declare any known interests in any matter to be considered, and are reminded that any such interest should also be declared at the start of an item or during any discussion of the matter concerned.

3. Public Question Time

See explanatory note below. Please phone the Committee Officer whose name and number appears at the top of this agenda if you need further guidance).

4. Minutes (Pages 5 - 8)

To receive the minutes of the meeting held on 28th November 2017

5. Exempt Items - Exclusion of Press and Public

Certain items are expected to include the consideration of exempt information and the Cabinet is, therefore, recommended to resolve "That, in accordance with Section 100A(4) of the Local Government Act 1972, the public be excluded during the discussion of the matters referred to in the items listed below, on the grounds that they involve the likely disclosure of exempt information, as defined in the respective paragraph of Part 1 of Schedule 12A of the Act, and the public interest in maintaining the exemption outweighs the public interest in disclosing the information".

<u>Item No.</u>	<u>Paragraph No.</u>
<u>11</u>	<u>3</u>

6. **Treasury Management Strategy 2018/19** (Pages 9 - 34)
7. **Internal Audit report - Commercial Assets** (Pages 35 - 70)
8. **External Audit Certification Letter** (Pages 71 - 74)
9. **External Audit update** (Pages 75 - 90)
10. **Head of Internal Audit update** (Pages 91 - 104)

PART 2 (TO BE CONSIDERED WITHOUT THE PRESS AND PUBLIC PRESENT)

11. **Internal Audit report - New Eastern Villages** (Pages 105 - 140)

Date of Despatch: 06 February 2018

Key:

Officers:

HIA - Head of Internal Audit

Public Question Time - Swindon Borough Council remains committed to increasing its accountability to the public and to promoting active citizenship. 15 minutes will be allowed at the start of all Council meetings for questions to the Chair from the public about the work of the Committee (except for confidential matters, and matters relating to planning and licensing applications). We will give priority to those who submit questions in writing at least two days before the meeting. Questions must be relevant, clear, and concise. You may not use Public Question Time as an opportunity to make speeches or statements.

Questions in writing should be sent to the Committee Officer whose contact details appear on the agenda above or to the Director of Law and Democratic Services, we will publish it, along with the answer, alongside the Minutes. The process associated with asking a public question is set out in the "Public Question Time at Council Meetings Protocol and Guidance" available on the Council's Website.

(<http://ww5.swindon.gov.uk/moderngov/ecCatDisplay.aspx?sch=doc&cat=13338&path=0>) or from the Committee Officer named above.

(the complete terms of reference and programme of activity for the Audit Committee are set out in Minute 10 of the meeting of the Audit Sub-Committee held on 16 June 2015)

- Be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievement of the authority's objectives.
- In relation to the authority's internal audit functions:
 - Oversee its independence, objectivity, performance and professionalism
 - Support the effectiveness of the internal audit process
 - Promote the effective use of internal audit within the assurance framework
- Consider the effectiveness of the control environment, including arrangements for ensuring value for money and for managing the authority's exposure to the risk of fraud and corruption.
- Consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control.
- Support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process.
- Review the financial statements, external auditor's opinion and reports to Members, and monitor management action in response to the issues raised by external audit.
- Reviewing and monitoring treasury management arrangements in accordance with the CIPFA Treasury Management Code of Practice.

This page is intentionally left blank

AUDIT COMMITTEE

TUESDAY, 28 NOVEMBER 2017

PRESENT:- Councillors Steve Weisinger (Chair), John Ballman, Malcolm Davies, Mary Friend, Nick Martin, Des Moffatt and Kevin Small

23. Declarations of Interest

The Chair reminded members to declare any known interests in any matter to be considered. No such declarations were made.

24. Public Question Time

There were no public questions.

25. Minutes

Resolved - That the minutes of the meeting held on 13th September 2017 be confirmed and signed.

26. Mid Year Treasury Performance 2017/18

The Committee received a joint report of the Cabinet Member for Finance and Commercialisation and the Corporate Director, Resources and Growth setting out the mid-year Treasury Management performance for 2017/18.

Resolved – That the mid-year Treasury Management performance as at the end of September 2017 be noted.

27. Corporate Risk Management Update

The Committee received a summary report of risk management activity within the Council, including the most recently updated and reformatted Corporate Risk Register. It was noted that it was a function of the Audit Committee to provide independent assurance to the Council of the effectiveness of the Council's risk management, internal control and its overall assurance framework and that this report summarised the areas that the Committee might wish to consider in gathering this assurance.

The Director of Performance, Organisational Improvement and Communications and the Corporate Planning Lead, Resources introduced the report, providing an overview of the work done in support of the Council's Risk Management processes and to integrate and align with the Council's performance management arrangements and changes made to the corporate risk management process and the Corporate Risk Register following input from members of the Audit Committee.

The Corporate Planning Lead, Resources took members through the detail of the report, expanding on the main key risk areas identified in the Corporate Risk Register, attached to the report at Appendix 1, and the respective causes, impacts

and mitigating actions to reduce likelihood for each of the major identified risk areas.

Councillors Des Moffatt and Kevin Small asked a series of questions including: the weightings used before and after mitigation, the quality assurance on mitigation measures, the effect of uncertainty from the national political context on risk, and the impact of safeguarding issues. Officers responded at the meeting.

Councillor Moffatt undertook to send an email to officers concerning meetings with parishes, to which he had not been invited as chair, to discuss mitigating measures. The Chair requested that the email be included alongside the Minutes.

Resolved – (1) That the report be noted and that the risk management approach and processes and risks captured in the Corporate Risk Register be endorsed.

(2) That the adjustments to the corporate risk management process and changes to the Corporate Risk Register, as reflected in the revised report format and presentation, be also endorsed.

(3) That the officers be thanked for attending the meeting and for their full and open responses to members' questions and observations on matters relating to the Council's Corporate Risk Management Strategy and specific issues relating to the key risk areas identified in the Corporate Risk Register.

28. Internal Audit report: Performance and Risk

The Committee received a report of the Head of Internal Audit on the key findings of the Internal Audit of the Council's performance and risk management framework. It was noted that the review had identified number of areas where there remained opportunities to develop processes and increase the Council's maturity in relation to performance and risk, including:

The regular integrated review of performance and risk at CMT and LAG level

The inconsistent culture and practice below CMT level in relation to using performance and risk information.

Although performance culture appears to be improving, as evidenced by the ongoing development of performance and risk scorecards for each of the Council's directorates, it was recognised that Heads of Service and Corporate Management Team needed to champion performance and risk management at a directorate and service level, to ensure required processes embed in the organisation and the benefit of performance and risk management is delivered.

The absence of standards or guidance to determine how performance and risk management should be applied to the Council's partnerships. Issues had been identified in relation to a lack of transparent reporting, or lack of KPIs to govern these.

As a result, the Internal audit review had found that the impact and materiality of Performance and Risk Management was considered high and that satisfactory arrangements are in place resulting in a moderate risk to the Council.

The Council's Corporate Planning Lead Officer was in attendance and provided the meeting with a current position statement in relation to the implementation of the internal audit recommendations and also responded to members' questions on issues raised regarding identified risk areas, the management response to the audit conclusions and key recommendations, and progress in implementing the action plan.

Resolved – That the report be noted.

29. External Audit: Annual Audit letter

The Committee received the External Auditors' Annual Audit letter. It was noted that it was the intention that the Letter should communicate the key messages of the Audit Findings report, considered by the Committee at its last meeting, to the Council and to external stakeholders, including members of the public.

Elizabeth Cave, the External Auditors' Director for the Council, introduced the report, summarising the key findings arising from their work at the Council for the year ended 31 March 2017, as reported in detail to the last meeting of the Audit Committee in the Audit Findings report. Ms Cave made reference to the Council needing to continue to review its accounts processes and supporting documentation to enable it to meet the requirement to have its accounts audited and opinion issued by the earlier deadline next year of July 31st, as set out by the Government.

Resolved – (1) That the report be noted.

(2) That, following the Chair's announcement that this would be the last Audit Committee attended by Elizabeth Cave, this Committee records its appreciation for the work of Ms. Cave on behalf of Swindon Borough Council.

30. External Audit: Progress and update

Chris Hackett (Grant Thornton) presented a report advising the Committee of the External Auditors' progress, as at November 2017, in respect of the delivery of their audit responsibilities. .

The Update report also included a summary of key emerging national issues and developments that might be of interest to the Committee.

Resolved – That the update report and the summary of key emerging national issues and developments be noted.

31. Head of Internal Audit update

The Committee received a report of the Head of Internal Audit summarising the main issues arising from the Internal Audit reports finalised since the last Audit Committee meeting in September 2017, progress made against the Annual Internal Audit Plan 2017/18 and Internal Audit staffing and resource issues.

Resolved – That the report be noted.

This page is intentionally left blank

Treasury Strategy Statement 2018/19

Audit Committee

Date: 6th February 2018

Author: Cabinet Member for Finance and Commercialisation
Corporate Director, Resources and Growth

Wards: All

Parishes Affected: All

1. Purpose and Reasons

- 1.1 To report the Treasury Management Strategy for 2018/19, including Prudential Indicators up to 2020/21, the Annual Investment Strategy, and the Minimum Revenue Provision Policy Statement.
- 1.2 The effective management of financial resources through robust financial management processes underpins the Council's ability to achieve its plans and priorities.

2. Recommendations

Cabinet is recommended to:

- 2.1 Recommend the Treasury Management Strategy, Minimum Revenue Provision Policy and Prudential Indicators, as set out in Appendix 1, for approval by Full Council on 22nd February 2018.

3. Detail

Treasury Strategy

- 3.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Available cash (resulting from the Council's day-to-day cash management processes) is invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
- 3.2 The second main function of the treasury management service is the funding of the Council's Capital plans. These capital plans provide a guide to the borrowing needs of the Council, essentially the longer-term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses temporarily in lieu of new loans.
- 3.3 Treasury management is defined by the CIPFA Code of Practice for Treasury Management as the:

Further information on the subject of this report can be obtained from Ian Burbidge on Direct Dial No.07769 281641, or Email imburbidge@swindon.gov.uk.

Treasury Strategy Statement 2018/19

Audit Committee

Date: 6th February 2018

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

- 3.4 The Treasury Management Strategy for 2018/19 has not altered significantly from the 2017/18 strategy, which was reviewed and agreed by Council in February 2017 then reported to Cabinet mid-year (Council Minute 87, 2017/18 and Cabinet Minute 62, 2017/18 refer).
- 3.5 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates, and actuals. Under the Council’s Constitution, the Audit Committee scrutinises the treasury management activities undertaken by the Director of Finance and his team, including compliance with agreed policies.
- 3.6 **A Treasury Management Strategy Statement** (This report) - The first, and most important report covers:
- 3.6.1 The Capital spending plans (including prudential indicators) based on Cabinet and Council decisions;
- 3.6.2 A Minimum Revenue Provision (MRP) Policy (which details how capital expenditure funded by borrowing is charged to the revenue budget over time);
- 3.6.3 The Treasury Management Strategy, as set out in Appendix 1, which details how the investments and borrowings are managed overall, including treasury indicators; and
- 3.6.4 An Investment Strategy, which sets the parameters around how investments are to be managed on a day-to-day basis.
- 3.7 **A Mid-Year Treasury Management Report** – This updates Members on Treasury Management performance for the first half of the financial year.
- 3.8 **An Annual Treasury Management Report** – This details the full year Treasury activity and performance.
- 3.9 The Treasury Management Strategy for 2018/19 covers three main areas:
- 3.9.1 Capital Issues:
- 3.9.2 The capital plans and the prudential indicators;
- 3.9.3 The MRP strategy.
- 3.10 Treasury Management issues covered are:
-

Further information on the subject of this report can be obtained from Ian Burbidge on Direct Dial No.07769 281641, or Email imburbidge@swindon.gov.uk.

Treasury Strategy Statement 2018/19

Audit Committee

Date: 6th February 2018

- 3.10.1 The current treasury position;
- 3.10.2 The treasury indicators which will limit the treasury risk and activities of the Council;
- 3.10.3 The prospect for interest rates;
- 3.10.4 The borrowing strategy;
- 3.10.5 The policy on borrowing in advance of need;
- 3.10.6 Debt rescheduling;
- 3.10.7 The investment strategy;
- 3.10.8 The creditworthiness policy; and
- 3.10.9 The policy on use of external service providers.
- 3.11 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CLG MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

Investment Returns

- 3.12 The annual Investment Strategy details priorities, which follow both CIPFA and DCLG guidance, when making Investments of surplus funds as
 - 3.12.1 Security first (i.e. ensuring we get our money back),
 - 3.12.2 Liquidity second (we get it back when we need it),
 - 3.12.3 Return on investment (we get the best possible return on our money).
- 3.13 The impact of this guidance is that the potential return on investments is secondary to security and liquidity and these parameters have a significant impact on the interest rate achieved by the Council in comparison with some other bodies and individuals as it restricts both to whom the Council can lend, and for how long.
- 3.14 The current Investment Strategy currently restricts investments to a maximum of two years. The Policy also recommends that investments greater than 1 year are limited to £20m in total and £10m to any one Counterparty. The exact length of any investment will, as always, be based on rates available at that time, interest rate forecasts, and forward liquidity requirements.
- 3.15 The Council currently has an investment in the Local Authority Property Fund (LAPF) of £15m, any proposals to increase this level of investment in either this fund or a similar multi asset fund will be brought to Cabinet for specific approval.

Further information on the subject of this report can be obtained from Ian Burbidge on Direct Dial No.07769 281641, or Email imburbidge@swindon.gov.uk.

Treasury Strategy Statement 2018/19

Audit Committee

Date: 6th February 2018

- 3.16 The Council is part of a benchmarking club, which consists of around 12 to 13 other public bodies in the West and Wales, including a variety of Local Authorities, Fire Authorities etc. Investment returns are regularly checked against the other public bodies in this group, and used to inform future investment strategies.

Changes to the Treasury Management and Prudential Codes

- 3.17 A revised Prudential Code was issued at the end of December, this requires a capital strategy to be produced and a change to a number of the key performance indicators.
- 3.18 The revised Prudential Code has introduced the need for the Council to adopt a Capital Strategy and CIPFA have recognised that it may not be possible to fully adopt this new requirement until 2019/20. The Capital Strategy will need to include the following:
- 3.18.1 Capital Expenditure – governance, long term plans and asset management planning
 - 3.18.2 Debt, Borrowing and Treasury Management – external debt projections, MRP arrangements, authorised limit and treasury management processes (Appendix 1 to this report)
 - 3.18.3 Commercial Activity - An overview of the authorities approach covering due diligence and risk appetite.
 - 3.18.4 Other long term liabilities – an overview of the governance arrangements, monitoring and risk management.
 - 3.18.5 Knowledge and Skills of the expertise available to the Council when making decisions.
 - 3.18.6 Links to existing policies of the Council regarding asset and risk management.

4. Alternative Options

- 4.1 Any alternative options for specific areas are set out within the report.

5. Implications, Diversity Impact Assessment and Risk Management

Financial and Procurement Implications

- 5.1 These have been reflected in the body of the report.

Further information on the subject of this report can be obtained from Ian Burbidge on Direct Dial No.07769 281641, or Email imburbidge@swindon.gov.uk.

Treasury Strategy Statement 2018/19

Audit Committee

Date: 6th February 2018

Legal and Human Rights Implications

- 5.2 All legal and human rights considerations have been taken fully into account in compiling this report. It is considered that the recommendations of this report are compatible with Convention rights.

All Other Implications (including Staff, Sustainability, Health, Rural, Crime and Disorder)

- 5.3 There are no such direct implications.

Diversity Impact Assessment (DIA)

- 5.4 A Diversity Impact Assessment (DIA) is not relevant to this report as this is a regulatory report, which covers the Councils treasury management processes and doesn't directly affect any services.

Risk Management

- 5.5 There are no direct risks arising from this report.

6. Consultees

- 6.1 The Director of Finance (Section 151 Officer) and Director of Law and Democratic Services (Monitoring Officer) are consulted in respect of all reports.

7. Background Papers

- 7.1 None

8. Appendices

- 8.1 Appendix 1 – Treasury Management Strategy

9. Key Decision/Decision in Cabinet Work Programme

- 1.1. This is not a key decision for the Cabinet (as the approval of the full Council is required) it is included in the Cabinet Work Programme and Forward Plan for February 2018.

This page is intentionally left blank

Appendix 1- Treasury Management Strategy 2018/19

Cabinet

Date: 7th February 2018

TREASURY MANAGEMENT STRATEGY 2018/19

Appendix 1- Treasury Management Strategy 2018/19

Cabinet

Date: 7th February 2018



Contents:

- 1. Current Portfolio Position**
 - 2. Prospect for Interest Rates and Economic Outlook**
 - 3. Minimum Revenue Provision Policy Statement**
 - 4. Borrowing Strategy**
 - 5. Investment Policy, Creditworthiness Policy and Investment Strategy**
-
- Annex 1 – Prudential Indicators**
 - Annex 2 - Credit and Counterparty Risk Management, Specified and Non-Specified Investments**

Appendix 1- Treasury Management Strategy 2018/19

Cabinet

Date: 7th February 2018

1 Current Portfolio Position

- 1.1 The capital expenditure plans set in Annex 1 to Appendix 1 summarises the Councils current and future plans. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities.
- 1.2 The Council's actual treasury portfolio position at 31 March 2017, with forward projections are summarised below. The table shows the actual external borrowing (both relating to the general fund and the HRA), against the borrowing requirement (shown through the Capital Financing Requirement or "CFR"), highlighting any over or under borrowing. The CFR represents the amount of long term borrowing required to fund capital expenditure, but not yet taken out.

Table 1 - Portfolio position forecasts

	17/18	18/19	19/20	20/21	21/22
	£'000's	£'000's	£'000's	£'000's	£'000's
Gross Borrowing b/fwd.	279,257	297,756	331,255	374,754	388,253
New Borrowing estimate	20,000	45,000	45,000	25,000	5,000
Maturing Debt	(1,501)	(11,501)	(1,501)	(11,501)	(10,751)
Gross Borrowing c/fwd.	297,756	331,255	374,754	388,253	382,502
Net Investments c/fwd.	(61,400)	(72,500)	(72,500)	(72,500)	(72,500)
Net Borrowing c/fwd.	236,356	258,755	302,254	315,753	310,002
CFR	484,024	479,387	473,633	467,510	463,514
Less PFI liabilities	(51,280)	(49,555)	(47,632)	(45,505)	(45,505)
Net Borrowing Requirement	432,744	429,832	426,001	422,005	418,009
(Under)/Over borrowing	(196,388)	(171,077)	(123,747)	(106,252)	(108,007)

2 Prospects for Interest Rates and Economic Outlook

- 2.1 The Council has appointed Link Asset Services (formerly Capita Asset Services) as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives the Link central view.

Further information on the subject of this report can be obtained from Ian Burbidge on Direct Dial No. 07769 281641 or Email iburbidge@swindon.gov.uk

Appendix 1- Treasury Management Strategy 2018/19

Cabinet

Date: 7th February 2018

Table 2 – Prospects for Interest Rates

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB Rate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB View	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB View	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

- 2.2 The Monetary Policy Committee, (MPC), delivered a 0.25% increase in Bank Rate at its meeting on 2 November. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. The Link Asset Services forecast as above includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.
- 2.3 Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.
- 2.4 The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. PWLB rates and gilt yields have been experiencing exceptional levels of volatility that have been highly correlated to geo-political, sovereign debt crisis and emerging market developments. It is likely that these exceptional levels of volatility could continue to occur for the foreseeable future.
- 2.5 The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit and the timetable for its implementation.
- 2.6 In summary:
- Investment returns are likely to remain low during 2018/19 but to be on a gently rising trend over the next few years;
 - Borrowing interest rates increased sharply after the result of the general election in June and then also after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate increases. Since then, borrowing rates have eased back again somewhat. Apart from that, there has been little general trend in rates during the current financial year. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;

Appendix 1- Treasury Management Strategy 2018/19

Cabinet

Date: 7th February 2018

- There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns

3 Minimum Revenue Provision Policy Statement

- 3.1 The Council is required to charge an element of the accumulated General Fund capital spend each year (measured through the CFR) to revenue (the minimum revenue provision or “MRP”), although it is also allowed to undertake additional voluntary payments if required.
- 3.2 CLG Regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to Councils, as long as there is a prudent provision. The Council is recommended to approve the following MRP Statement for 2018/19:
 - *For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP will be based on the CFR as per the regulatory method in the MRP guidance. This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.*
 - *From 1 April 2008 for all unsupported borrowing the MRP will be based on the estimated life of the assets, on an annuity basis, in accordance with the regulations. Annuity method charges will be calculated using the relevant PWLB annuity rates for the estimated asset lives as at 31st March in the year of expenditure. MRP charges commence the year after the asset becomes operational.*
 - *MRP in relation to capital expenditure funded through borrowing incurred on the Wichelstowe project, will be deferred and the liability repaid through future capital receipts from the site. Should there be a shortfall between the debt and eventual receipts, the balance will incur an annual MRP charge.*
 - *This methodology will also be applied to other capital expenditure funded from borrowing where there is an intention to repay the borrowing from future receipts and where there is a strong likelihood that this will happen.*
 - *For PFI contracts MRP will be based on the estimated life of the assets, on an annuity basis, in accordance with the regulations. Annuity method charges will be calculated based on the PWLB annuity rates at 31st March in the year that the assets became operational.*
 - *Where non-ring-fenced capital receipts are available, these can be applied to meet the cost of PFI liability repayment (or part thereof). Where capital receipts are applied in this manner, the MRP charge for the PFI would be reduced by an equal amount in that year.*

Further information on the subject of this report can be obtained from Ian Burbidge on Direct Dial No. 07769 281641 or Email iburbidge@swindon.gov.uk

Appendix 1- Treasury Management Strategy 2018/19

Cabinet

Date: 7th February 2018

- *For any future finance leases the MRP requirement would be met by a charge equal to the element of the charge applied to write down the liability.*

3.3 No revenue charge is currently required for the HRA, although the existing voluntary policy is to repay £5m per annum.

4 Borrowing Strategy

- 4.1 The Council is currently maintaining an under-borrowed position. This means that there is a shortfall between the amount of long-term loans required, and the actual level of long term loans taken out. Long term loans are required to fund capital expenditure which Cabinet has approved as “funded through borrowing”, but there is a timing difference between when the expenditure is made and when the long term loan is taken out. The timing of the taking of long term loans is part of the wider cash management strategy.
- 4.2 The difference between long term borrowing required and what has actually been taken out is known as “Internal Borrowing” and represents the temporary use of cash reserves and working capital to bridge the timing difference. As cash from reserves and working capital is currently invested at historically low rates, then the policy of delaying long-term borrowing and using existing cash balances as an interim measure is currently a cheaper option for the Council.
- 4.3 While the council will maintain an under borrowed position on the General Fund (the HRA is fully borrowed up to the CFR), future movements in interest rates will dictate the future policy and the timing of taking out long-term loans, and will be kept under careful review.
- 4.4 Against this background and the risks within the economic forecast, caution will continue to be adopted with the 2018/19 treasury operations. The Corporate Director, Resources and Growth will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:
- If it was felt that there was a significant risk of a sharp FALL in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
 - If it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

Appendix 1- Treasury Management Strategy 2018/19

Cabinet

Date: 7th February 2018

Borrowing in Advance of Need

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

Loan Re-scheduling

- 4.6 Opportunities from rescheduling loans to generate savings will be monitored through the year but need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).
- 4.7 The reasons for any rescheduling to take place will include:
- The generation of cash savings and / or discounted cash flow savings;
 - Helping to fulfil the treasury strategy;
 - Amending the balance of the portfolio (amend the maturity profile and/or the balance of volatility).
- 4.8 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.
- 4.9 All rescheduling will be reported to the Cabinet at the earliest meeting following its action.

5 Investment Policy, Creditworthiness Policy and Investment Strategy

Investment Policy

- 5.1 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.
- 5.2 In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.
- 5.3 Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take

Appendix 1- Treasury Management Strategy 2018/19

Cabinet

Date: 7th February 2018

account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.

- 5.4 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- 5.5 Investment instruments identified for use in the financial year are listed in Annex 2 under the ‘specified’ and ‘non-specified’ investments categories. Counterparty limits will be as set through the Council’s treasury management practices – schedules.

Creditworthiness Policy

- 5.6 This Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody’s and Standard and Poor’s. The credit ratings of counterparties are supplemented with the following overlays:
- Credit watches and credit outlooks from credit rating agencies;
 - CDS spreads to give early warning of likely changes in credit ratings;
 - Sovereign ratings to select counterparties from only the most creditworthy countries.
- 5.7 This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments.
- 5.8 The Link Asset Services’ creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency’s ratings.
- 5.9 Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

Appendix 1- Treasury Management Strategy 2018/19

Cabinet

Date: 7th February 2018

- 5.10 All credit ratings will be monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services' creditworthiness service.
- If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
 - In addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.
- 5.11 Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on any external support for banks to help support its decision making process.

Country limits

- 5.12 The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent). This list will be amended by officers should ratings change in accordance with this policy.

Investment Strategy

- 5.13 **In-house funds.** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).
- 5.14 **Investment returns expectations.** Bank Rate is forecast to stay flat at 0.50% until quarter 4 2018 and not to rise above 1.25% by quarter 1 2021. Bank Rate forecasts for financial year ends (March) are:
- 2017/18 0.50%
 - 2018/19 0.75%
 - 2019/20 1.00%
 - 2020/21 1.25%

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

- 2018/19 0.40%
- 2019/20 0.60%
- 2020/21 0.90%

Appendix 1- Treasury Management Strategy 2018/19

Cabinet

Date: 7th February 2018

Investment Periods

- 5.15 Investment periods are currently restricted to no longer than 24 months. Lending to counterparties is in line with the creditworthiness policy detailed above and recommended by Link. Any investments to banks and building societies for a period in excess of 365 days would be classed as a “non-specified investment” as detailed in Annex 2 to this strategy and these are limited to a total of £20m.
- 5.16 Investments in the Local Authority Property Fund or any similar multi asset fund may exceed the £10m limit for investments to one counter party, these investments will be subject to a specific approval before they are undertaken.

6 Policy on the use of external service providers

- 6.1 The Council uses Link Asset Services as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

Annexes

- Annex 1 - Prudential Indicators.
- Annex 2 - Credit and Counterparty Risk Management, Specified and Non-Specified Investments

Key Decision / Decision in Forward Plan

This is not a key decision for the Cabinet (as the approval of the full Council is required) and is included in the Cabinet Forward Plan

Treasury Management Strategy 2018/19 Appendix 1- Annex 1

Cabinet

Date: 7th February 2018

Annex 1 – Prudential Indicators

1 Capital Indicators

- 1.1 The Council's capital expenditure plans are a key driver of treasury management activity. The outputs from capital expenditure plans are reflected in prudential indicators, which are designed to assist the Members overview and confirm capital expenditure plans.

Table 1 - Capital Expenditure Projections

Capital Expenditure	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
General Fund Approved	51,577				
General Fund New		12,029	8,487	8,487	8,487
HRA Approved	48,183				
HRA Estimated New		15,500	15,500	15,500	15,500
Total	99,760	27,529	23,987	23,987	23,987

- 1.2 The figures in this indicator (General Fund approved) represent the level of current scheme approvals as reported to Cabinet in December 2017 as part of the quarterly capital monitoring process. Figures in the "general fund new" row represent proposed approvals for Cabinet in February 2018. These represent total approvals, irrespective of funding source. Figures in the "HRA estimated new" represent the annual capital expenditure in the HRA maintenance programme
- 1.3 The second prudential indicator is the **Council's Capital Financing Requirement (CFR)**. The CFR represents the total long term borrowing requirement (i.e. borrowing required to finance capital approvals), regardless of whether the borrowing has been undertaken or not.
- 1.4 Details of the Council's projections for actual external debt compared to the CFR are contained in table 1 of the main Strategy. Note the figures are estimates, not commitments.
- 1.5 The asset transfer noted below represents the net capital value of the commercial and other assets transferred to the General Fund from the HRA, and is offset by the transfer of houses from the General Fund to the HRA.

Table 2 Capital Financing Requirement

General Fund	2017/18	2018/19	2019/20	2020/21	2021/22
CFR b/fwd.	286,511	318,212	320,300	321,469	322,473
New schemes from borrowing	26,783	3,307	2,569	2,569	2,569

Further information on the subject of this report can be obtained from Ian Burbidge on Direct Dial No. 07769 281641 or Email iburbidge@swindon.gov.uk

Treasury Management Strategy 2018/19 Appendix 1- Annex 1

Cabinet

Date: 7th February 2018

Asset Transfer from HRA	6,000	0	0	0	0
Less MRP	(1,082)	(1,219)	(1,400)	(1,565)	(1,565)
Sub-total	318,212	320,300	321,469	322,473	323,477
Add PFI Liability	51,280	49,555	47,632	45,505	45,505
Closing CFR incl. PFI	369,492	369,855	369,101	367,978	368,982

HRA	2017/18	2018/19	2019/20	2020/21	2021/22
CFR b/fwd.	125,532	114,532	109,532	104,532	99,532
Spend from borrowing	0	0	0	0	0
Asset Transfer to GF	(6,000)	0	0	0	0
Less MRP	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)
Closing CFR	114,532	109,532	104,532	99,532	94,532

Total CFR	484,024	479,387	473,633	467,510	463,514
-----------	---------	---------	---------	---------	---------

2 Affordability Indicators

- 2.1 Prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans and subsequent finance costs on the Council's overall finances.
- 2.2 Table 3 below shows the estimated financing costs (interest and debt repayment) as a proportion of the General Fund and HRA budgets.

Table 3 - Estimate of the ratio of financing costs to net revenue stream

	2017/18	2018/19	2019/20	2020/21	2021/22
General Fund	8.3%	7.6%	7.4%	7.4%	7.3%
HRA	41.3%	39.3%	39.0%	38.6%	38.6%

- 2.3 Table 4 calculates the impact of new approvals funded from borrowing on the tax payer, based on approvals from the February Cabinet Report. It is effectively the increase in debt charges (interest and debt repayment) divided by the estimated tax base. The 2019/20 estimate is based on the assumption that approvals are at the same level as 2018/19.

Table 4 - Incremental impact of capital investment decisions on the band D Council Tax

	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Current Approved Programme	£16.73	£16.50	£16.27	£16.06
New Proposals	£20.30	£20.02	£19.75	£19.48

Further information on the subject of this report can be obtained from Ian Burbidge on Direct Dial No. 07769 281641 or Email iburbidge@swindon.gov.uk

Treasury Management Strategy 2018/19 Appendix 1- Annex 1

Cabinet

Date: 7th February 2018

3 Borrowing Indicators

- 3.1 **The Operational Boundary.** This is the limit beyond which external borrowing is not normally expected to exceed. This limit reflects the Councils current estimated debt position, with the assumption that internal borrowing will be reduced as new external borrowing is undertaken. Other long term liabilities represent PFI and finance leases.

Table 5 - Operational Boundary

	2017/18	2018/19	2019/20	2020/21	2021/22
CFR b/fwd.	432,744	429,832	426,001	422,005	418,009
Other Long Term Liabilities	51,280	49,555	47,632	45,505	45,505
New Borrowing	20,000	20,000	20,000	20,000	20,000
Total	504,024	499,387	493,633	487,510	483,514

- 3.2 **The Authorised Limit for external borrowing.** A further key prudential indicator, this represents a control on the maximum level of borrowing. This represents a limit beyond which external borrowing is prohibited. This has been set to reflect the Council's estimate of the Capital Financing Requirement for borrowing, and for other long term liabilities (PFI and other leases) at £5m above the Operational Boundary (i.e. the expected level)

Table 6 - Authorised Limit for External Debt

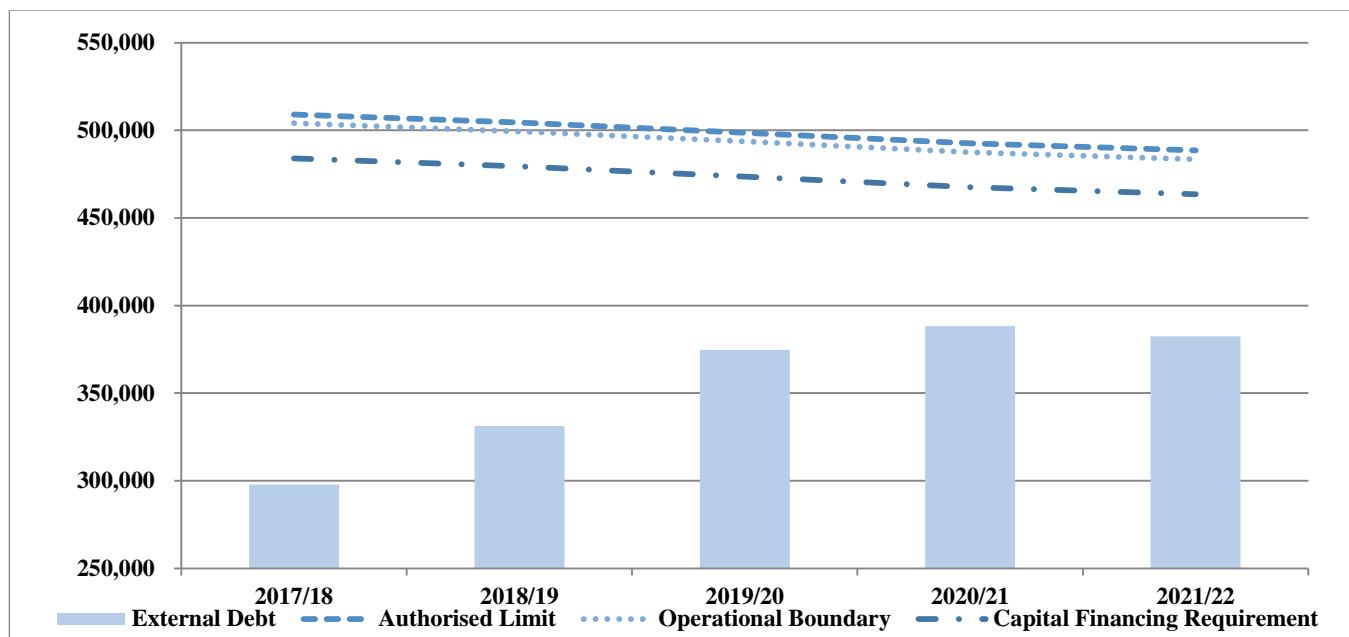
	2017/18	2018/19	2019/20	2020/21	2021/22
Borrowing	452,744	449,832	446,001	442,005	438,009
Other Long Term Liabilities	51,280	49,555	47,632	45,505	45,505
Uplift applied to borrowing	5,000	5,000	5,000	5,000	5,000
TOTAL	509,024	504,387	498,633	492,510	488,514

- 3.3 The above information is summarised in the graph below, showing existing debt, the CFR, the Operational Limit and the Authorised Limit

Treasury Management Strategy 2018/19 Appendix 1- Annex 1

Cabinet

Date: 7th February 2018



- 3.4 Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime. The table below also includes the anticipated HRA investment balance, it is anticipated that this will reduce over the next 4 years as the HRA uses its capital reserves to purchase property as part of its £17m acquisition programme.

HRA Debt Limit £m	2017/18 Estimate £'000's	2018/19 Estimate £'000's	2019/20 Estimate £'000's	2020/21 Estimate £'000's	2021/22 Estimate £'000's
HRA debt cap	172,599	172,600	172,600	172,600	172,600
HRA CFR 31st March	114,532	109,532	104,532	99,532	94,532
HRA headroom	58,067	63,068	68,068	73,068	78,068
HRA Average investment balance	30,000	25,000	20,000	15,000	15,000

4 Activity Limit Indicators

- 4.1 There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:
- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rate loans (based upon the debt position net of investments)

Further information on the subject of this report can be obtained from Ian Burbidge on Direct Dial No. 07769 281641 or Email iburbidge@swindon.gov.uk

Treasury Management Strategy 2018/19 Appendix 1- Annex 1

Cabinet

Date: 7th February 2018

- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates loans;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing in a single period;

Table 7-Treasury Management Activity Limits

£m	2018/19	2019/20	2020/21	2021/22
Interest rate Exposures				
	Upper	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	100%	100%	100%	100%
Limits on variable interest rates based on net debt	30%	30%	30%	30%
Maturity Structure of fixed interest rate borrowing 2018/19				
	Lower		Upper	
Under 12 months	0%		15%	
12 months to 2 years	0%		30%	
2 years to 5 years	0%		40%	
5 years to 10 years	0%		40%	
10 years and above	0%		80%	
In any 10 year period above 10 years	0%		50%	

- 4.2 The maximum amount the council will invest for more than 1 year is set out in the table below;

Maximum principal sums invested > 365 days				
£m	2018/19	2019/20	2020/21	2021/22
Principal sums invested > 365 days	£20m	£20m	£20m	£20m

This page is intentionally left blank

Treasury Management Strategy 2018/19 - Appendix 1 Annex 2

Cabinet

Date: 7th February 2018

Annex 2 – Credit and Counterparty Risk Management, Specified and Non- Specified Investments

1 Treasury Management Practices

- 1.1 The CLG issued Investment Guidance in 2010, and this forms the structure of the Council's policy.
- 1.2 The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code on the 1st April 2008 and will apply its principles to all investment activity. In accordance with the Code, the Corporate Director, Resources and Growth has produced its Treasury Management Practices (TMPs). This part covering investment counterparty policy requires approval each year.
- 1.3 The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:
 - The strategy guidelines for choosing and placing investments, particularly non-specified investments.
 - The principles to be used to determine the maximum periods for which funds can be committed.
 - Specified investments that the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
 - Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

2 Specified/Non-Specified Investments

- 2.1 The main Investment guidelines are contained in the body of the Treasury Strategy statement. The paragraphs below detail the Council's use of Specified and Non Specified Investments
- 2.2 **Specified Investments** – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal

Treasury Management Strategy 2018/19 - Appendix 1 Annex 2

Cabinet

Date: 7th February 2018

or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

- The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or Gilt with less than one year to maturity).
- Supranational bonds of less than one year's duration.
- A local authority, parish council or community council.
- Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. This covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor's, Moody's or Fitch rating agencies.
- A body that is considered of a high credit quality (such as a bank or building society) in accordance with the Councils creditworthiness Policy.

2.3 **Non-Specified Investments** – Non-specified investments are any other type of investment (i.e. not defined as Specified above). The Council holds 4 types of non-specified investments:

- Cash deposits > 1 year (Category (e) below)
- Share Capital (Category (g) below)
- Loan Capital (Category (h) below)
- The Local Authority Property Fund (Category (j) below).

Other Non-specified investments that the Council could make would include any investments with:

Non Specified Investment Category
Supranational Bonds greater than 1 year to maturity (a) Multilateral development bank bonds - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Reconstruction and Development Bank etc.). (b) A financial institution that is guaranteed by the United Kingdom Government (e.g. The Guaranteed Export Finance Company {GEFCO}) The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.
(c) Gilt edged securities with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a)

Further information on the subject of this report can be obtained from Ian Burbidge on Direct Dial No. 07769 281641 or Email iburbidge@swindon.gov.uk

Treasury Management Strategy 2018/19 - Appendix 1 Annex 2

Cabinet

Date: 7th February 2018

above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.
(d) The Council's own banker if it fails to meet the basic credit criteria. In this instance any balances will be maintained on an instant access basis
(e) Building societies not meeting the basic security requirements under the specified investments. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The Council may use such building societies but will take specific advice before doing so.
(f) Any bank or building society that complies with the Council's creditworthiness policy for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).
(g) Share capital in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies. See note 1 below.
(h) Loan capital in a body corporate. See note 1 below.
(i) Bond funds. See note 1 below.
(j) Property funds – The use of these instruments can be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any fund it may consider using.

Note 1: This Authority will seek further advice on the appropriateness and associated risks with investments in these categories.

The monitoring of investment counterparties - The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link Asset Services as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately and if required new counterparties which meet the criteria will be added to the list.

This page is intentionally left blank

Internal Audit report – Commercial Assets

Audit Committee

Date: 6 February 2018

Author: Head of Internal Audit

Wards: None

Parishes Affected: None

1. Purpose and Reasons

- 1.1 To present Members with a summary of the main issues arising from the Internal Audit reports finalised since the Audit Committee meeting in November 2017, to update Members with regard to progress against the annual internal audit plan and other key issues.
- 1.2 The Council's Audit Committee has a strategic role to ensure that the Council's assurance framework is operating effectively. To this end it should seek assurance that key areas that contribute to this framework are operating properly.
- 1.3 The Council's Internal Audit section is a key component of the assurance framework and therefore it is essential that this Committee monitor its performance against the annual plan along with the implementation of agreed recommendations by Client departments.

2. Recommendations

The Committee is recommended to:

- 2.1 It is recommended that Audit Committee note the report.

3. Detail

Background

- 3.1 The economic pressure on the public finances has focused greater attention on public sector property asset portfolios. The Council is subject to significant financial pressures over the forthcoming years and it is therefore important that it makes the best use of its existing assets and reassesses income earning opportunities from the commercial estate to generate additional income and investment value.
- 3.2 The Council's commercial property portfolio is currently valued at £42m and produces a gross annual revenue income of just under £3.7m and this income is used to support the delivery of Council Services. In December 2016, Cabinet approved the creation of a Commercial Investment Fund of £50m to support economic growth and generate sustainable income.
- 3.3 The objective of the Internal Audit review was to provide assurance that the Council's strategy for non-operational/commercial property investment is up to date, reflects best practice and provides a clear direction to achieve the Council's

Further information on the subject of this report can be obtained from Nick Hobbs,
Direct Dial Telephone Number: 01793 463940, nhobbs@swindon.gov.uk.

Internal Audit report – Commercial Assets

Audit Committee

Date: 6 February 2018

goals for commercial assets. An assessment of how well the existing commercial property portfolio was being managed was also conducted.

Key findings

- 3.4 The audit was conducted after the December 2016 Cabinet meeting where the Corporate Investment Strategy was approved and the supporting governance arrangements were being developed. The processes proposed for the consideration of investment opportunities appear reasonable but could not be tested.
- 3.5 Whilst it is acknowledged that the primary purpose of the Commercial Investment Strategy and the role of commercial assets is to generate income, it is important that, where possible, Council assets also support the delivery of other strategies. Currently, the Commercial Investment Strategy does not refer to links to other strategies or plans resulting in a risk of duplication or conflict with other priorities.
- 3.6 The management of the existing commercial asset portfolio is carried out by a core of experienced officers. Processes and procedures have developed over time and in response to requirements of the Council. In the 2000s, the focus for the Property Team was on generating capital receipts and consequently a significant number of commercial property assets were sold to raise approximately £40m in capital receipts. This naturally resulted in a scaling down of the management of these assets and processes were not developed further. The service acknowledges that they now need to develop their commercial asset provision to respond to the new focus on widening the property portfolio in order to generate additional income.
- 3.7 Currently, detailed performance information is not currently collated, reviewed and compared to determine whether the property portfolio is performing as expected or to identify areas for improvement. No performance indicators have been identified and benchmarking is not conducted.
- 3.8 Recommendations made in this report have been made in response to weaknesses in procedures identified during the audit and with reference to good practice identified through research and reference to national studies.
- 3.9 The Internal Audit report was issued in draft early in 2017/18 but took some time to clear due to changes in senior staff i.e. Interim Director of Resources and the Corporate Director: Economy, Regeneration and Skills. The report was finalised in October 2017 and is attached as Appendix 1.
- 3.10 An updated management response has also been provided setting out action taken to implement agreed audit recommendations (see Appendix 2). The Corporate Director: Resources and Growth and the Head of Property Assets will be at Audit Committee to answer any questions that Members may have.

Further information on the subject of this report can be obtained from Nick Hobbs, Direct Dial Telephone Number: 01793 463940, nhobbs@swindon.gov.uk.

Internal Audit report – Commercial Assets

Audit Committee

Date: 6 February 2018

4. Alternative Options

4.1 Not applicable

5. Implications, Diversity Impact Assessment and Risk Management

Financial and Procurement Implications

5.1 There are no direct financial implications arising from this report.

Legal and Human Rights Implications

5.2 Internal Audit is a statutory requirement of the Accounts and Audit Regulations 2015. The Internal Audit service also provides assurance to the Director of Finance regarding the requirements of Section 151 of the Local Government Act 1972.

All Other Implications (including Staff, Sustainability, Health, Rural, Crime and Disorder)

5.3 None

Diversity Impact Assessment

5.4 None

Risk Management

5.5 Potential risks to the Council are identified in the individual audit report attached as Appendix 1.

6. Consultees

6.1 The Director of Finance (Section 151 Officer) and Director of Law and Democratic Services (Monitoring Officer) are consulted in respect of all reports.

6.2 The following officers were consulted on the Internal Audit report attached:

Corporate Director: Resources and Growth; Head of Property Assets;
Regeneration and Projects Officer: Economy and Skills; Head of Finance –
Deputy Section 151 Officer

7. Background Papers

7.1 None

8. Appendices

8.1 Appendix 1: Internal Audit Report – Commercial Assets

Appendix 2: Updated Management response re. Internal Audit recommendations

Further information on the subject of this report can be obtained from Nick Hobbs,
Direct Dial Telephone Number: 01793 463940, nhobbs@swindon.gov.uk.

This page is intentionally left blank

**Commercial Property
Assets**

**October 2017
(Final)**

Swindon Internal Audit Services: Commercial Assets

Contents and Distribution

Contents

Executive Summary	2
Context.....	5
Risk Areas Examined and Findings	5
Overall Opinion	7
Action Plan	8
Appendices:	
A – Standard Audit Opinion	
B – Acknowledgements	
C – Example Investment and Appraisal Criteria	

Report Distribution – Final Report issued on 31st October 2017¹ to:

Corporate Director: Resources and Growth
 Head of Property Assets
 Regeneration and Projects Officer: Economy and Skills
 Head of Finance: Economy

Auditor:

Principal Auditor

¹ Note – Initial Draft Report issued 10/3/17

Swindon Internal Audit Services: Commercial Assets

Executive Summary

Background

The economic pressure on the public finances has focused greater attention on public sector property asset portfolios. The Council is subject to significant financial pressures over the forthcoming years and it is therefore important that it makes the best use of its existing assets and reassesses income earning opportunities from the commercial estate to generate additional income and investment value.

The Council's commercial property portfolio is currently valued at £42m and produces a gross annual revenue income of just under £3.7m and this income is used to support the delivery of Council Services. In December 2016, Cabinet approved the creation of a Commercial Investment Fund of £50m to support economic growth and generate sustainable income.

The objective of this Internal Audit review was to provide assurance that the Council's strategy for non-operational/commercial property investment is up to date, reflects best practice and provides a clear direction to achieve the Council's goals for commercial assets. An assessment of how well the existing commercial property portfolio was being managed was also conducted.

Audit Opinion

The opinion on the current controls in place is that there are a number of significant improvements required to ensure the Council's commercial assets are managed effectively. The combination of the high impact of the system, along with the opinion on the system controls gives an overall risk assessment to the Council as being **of concern**.

Key Messages

The audit was conducted after the December 2016 Cabinet meeting where the Corporate Investment Strategy was approved and the supporting governance arrangements were being developed. The processes proposed for the consideration of investment opportunities appear reasonable but could not be tested.

Whilst it is acknowledged that the primary purpose of the Commercial Investment Strategy and the role of commercial assets is to generate income, it is important that, where possible, Council assets also support the delivery of other strategies. Currently, the Commercial Investment Strategy does not refer to links to other strategies or plans resulting in a risk of duplication or conflict with other priorities.

Swindon Internal Audit Services: Commercial Assets

The management of the existing commercial asset portfolio is carried out by a core of experienced officers. Processes and procedures have developed over time and in response to requirements of the Council. In the 2000s, the focus for the Property Team was on generating capital receipts and consequently a significant number of commercial property assets were sold to raise approximately £40m in capital receipts. This naturally resulted in a scaling down of the management of these assets and processes were not developed further. The service acknowledges that they now need to develop their commercial asset provision to respond to the new focus on widening the property portfolio in order to generate additional income.

Currently, detailed performance information is not currently collated, reviewed and compared to determine whether the property portfolio is performing as expected or to identify areas for improvement. No performance indicators have been identified and benchmarking is not conducted.

Recommendations made in this report have been made in response to weaknesses in procedures identified during the audit and with reference to good practice identified through research and reference to national studies.

Swindon Internal Audit Services: Commercial Assets

Context

The Council's Property Strategy acknowledges that the property and land held by the Council is a significant resource, which is essential for the provision of the vast majority of Council services.

As central government funding falls, councils are making the most of the opportunity afforded by low interest rates to reassess their property portfolios in order to work towards financial self-sufficiency by maximising the income they get from their investments. With central government grants due to be all but phased out by 2020, councils will be forced to rely increasingly heavily on local sources of funding. Smart investments, for instance in commercial property, can sometimes generate enough revenue for the council to service its debt and retain a surplus to fund public services, while also having the potential to encourage the growth of local business. At a time when rates are at a historic low, councils are looking to borrow for investment, as long as this investment is profitable, fits within the framework of the council's social goals, and is subject to proper risk management to ensure that the public does not have to bear unsustainable revenue costs to service the debt.

Corporate responsibility for the asset management strategy generally, including that for the commercial portfolio, rests with the Cabinet Member for Finance and Corporate Services. In so doing, the portfolio's management is directly linked to the objective of ensuring sound business planning and financial probity within the Council. The strategic and operational management of the estate falls under the responsibility of the Corporate Director of Economy, Regeneration and Skills and the Head of Property. The portfolio is managed in-house by Property Services, a team of Chartered Surveyors, plus administrative and business support.

Risk Areas Examined and Findings

In accordance with best practice, a risk-based approach was adopted that identified the key risks to the business objectives and those mitigating actions/controls that should be in place. The Auditor then assessed the effectiveness of the mitigating controls through examination of relevant documents, procedures and detailed testing.

The key risks to the achievement of the business objectives were discussed and agreed with the Corporate Director: Economy, Regeneration and Skills before the commencement of the audit. The table below summarises the Risk Areas examined during the review and provides an assessment of the adequacy of controls in place for each area of risk examined:

<i>Risk Area Examined and Findings</i>	<i>Audit Conclusion</i>
<p>Risk: Strategy and Policy</p> <ul style="list-style-type: none"> A Property Strategy was approved by Cabinet on 15.12.15 and this was updated in a Resources Overview and Scrutiny Committee Report in 19.3.15. This sets out the purpose of the portfolio of non-operational property and the objectives and general direction of the property base. 	<p>Significant improvements required</p>

Swindon Internal Audit Services: Commercial Assets

Risk Area Examined and Findings	Audit Conclusion
<ul style="list-style-type: none"> • An Asset Management Strategy and Asset Management Plan have not yet been devised. • The Draft Budget and Medium Term Resource Plan for 2017/18, taken to Cabinet in October 2016 notes the Council's response to its financial context will include exploring opportunities to maximise its assets by becoming more commercial. • The Commercial Investment Strategy, which includes commercial property investment, is not linked to other relevant Council strategies or plans, such as the Economic Strategy or Local Plan. • Risk registers are not in place for asset management or commercial assets, including investment. • A medium term forward plan has not been prepared for the investment strategy. 	
<p>Risk: Processes</p> <ul style="list-style-type: none"> • Staff working in Property Services have a significant amount of knowledge of the Council's commercial assets and the property sector in the borough. • Processes to support the Commercial Investment Strategy have not yet been established and consequently it is too early to give an opinion on their effectiveness. • Actions have been identified in the Strategy which need to be actioned in order to ensure that appropriate governance arrangements are in place and the risks associated with commercial investments are mitigated, where possible. 	<p>Significant improvements required</p>
<p>Risk: Portfolio Management</p> <ul style="list-style-type: none"> • A detailed analysis of the existing commercial asset portfolio has not been conducted to identify and classify their performance, potential and fit with the Commercial Investment Strategy. • The costs associated with the commercial asset portfolio are not calculated and used to assess the net income derived. It is therefore likely that income is overstated and decisions on future investments may not be fully informed. • Performance indicators have not been defined for Commercial Assets and the performance of the portfolio is not reported. Consequently it is not possible to assess whether income is maximised or whether performance is being managed effectively. • Benchmarking of commercial assets is not conducted to identify and apply best practices from industry and government to improve the performance of the Council's commercial assets. • A review of the data management systems used to record commercial properties, values and lease details should be conducted as the current arrangements do not allow for timely and accurate reporting. 	<p>Significant improvements required</p>

Swindon Internal Audit Services: Commercial Assets

Overall Opinion

Materiality and Impact: High. The Council is subject to significant financial pressures over forthcoming years. Consequently it is important that the Council makes the best use of its existing assets and re-assesses income earning opportunities from the let estate to generate additional income and investment value. The Council's portfolio of non-operational property is valued at approximately £42m and includes 188 assets including retail, office and industrial premises and a 2,000 acre agricultural estate. These assets produce nearly £3.7m gross of revenue income to supplement the Council's plans.

Opinion on system controls: Significant improvements required (see Appendix A) i.e. the Auditor completing the review concluded that existing procedures needed to be improved to ensure that they are fully reliable. A number of significant recommendations have been made to improve missing or failing controls.

Overall Assessment of Risk: the combination of the medium impact of the system, along with the opinion on the system controls gives an overall risk assessment to the Council as being **of concern**:

		MATERIALITY AND IMPACT		
SYSTEM CONTROL		High	Medium	Low
1	High standard	Moderate	Minimal	Minimal
2	Satisfactory	Moderate	Moderate	Minimal
3	Significant improvements required	Of concern	Moderate	Moderate
4	Fundamental weaknesses identified	Significant	Of concern	Moderate

Swindon Internal Audit Services: Commercial Assets

Action Plan

The purpose of this action plan is to provide a summary of the matters arising during the audit of Commercial Assets, together with the recommendations to mitigate risks, the response to the recommendations, along with the officer responsible and timescale for implementation. In order for you to identify the most significant matters arising, which affect the reliance that can be placed on the controls reviewed, the recommendations have been prioritised.

Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
1	<i>Risk: Strategy and Policy</i>			
1.1	<p>A Property Strategy was approved by Cabinet on 15.12.15 and this was updated in a Resources Overview and Scrutiny Committee Report in 19.3.15.</p> <p>This sets out the purpose of the portfolio of non-operational property and the objectives and general direction of the property base.</p> <p>The Council does not have an Asset Management Strategy or Asset Management Plan, therefore it is not possible to determine how the Property Strategy supports the delivery of the Council's overall objectives.</p>	<p>An Asset Management Strategy and Asset Management Plan should be devised detailing the long term approach to management of the assets, derived from, and consistent with, the Council's overall corporate objectives.</p> <p>Priority: Medium</p>	<p>Head of Property Assets</p> <p>February 2018</p>	<p>Agreed</p>

Swindon Internal Audit Services: Commercial Assets

Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
1	<i>Risk: Strategy and Policy</i>			
1.2	<p>A Commercial Investment Strategy has been devised which was approved at the December 2016 Cabinet Meeting.</p> <p>The Cabinet report notes that the Strategy will support the three themes set out in the 2016/17 Budget Management, 2017/18 Draft Budget and Medium Term Resourcing Plan to respond to the financial challenges reported to Cabinet in October 2016.</p> <p>It does not, however, refer to links between any other relevant strategies or policies, such as the Economic Strategy, Local Plan or Commercialisation Strategy.</p>	<p>Links between the Commercial Investment Strategy and other relevant Council strategies and plans should be identified and reviewed to ensure they do not conflict.</p> <p>Priority: High</p>	<p>Corporate Director: Resources and Growth</p> <p>February 2018</p>	Agreed
1.3	<p>The Commercial Investment Strategy report identified specific mitigation measures with regard to the risks associated with commercial property investments. However a risk register is not in place for property assets in general.</p> <p>General risks can include a fall in capital and rental values, tenants defaulting and an increase in financing costs. All these factors could have an impact on the net return to the Council.</p> <p>The 2016/17 Business Plan for Property notes that '<i>Commercial rental income has been maintained in line with budget targets but there is an ongoing challenge to maintain rent levels due to the higher rental assets becoming obsolete and the risk of tenant failure</i>'.</p>	<p>A risk management process should be introduced to the property assets function to ensure there is informed decision making.</p> <p>This should include production and regular review of a property assets risk register, identification of mitigating actions and a review to ensure they effectively address the risks identified. Relevant risks should be escalated to the economy risk register to be reviewed at SMT meetings.</p> <p>Priority: High</p>	<p>Head of Property Assets</p> <p>February 2018</p>	Agreed – This will be linked with 1.1 above.

Swindon Internal Audit Services: Commercial Assets

Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
1	<i>Risk: Strategy and Policy</i>			
1.4	<p>Throughout the audit, officers stated that the purpose of the Commercial Investment Strategy was purely to generate income to help deliver long-term financial resilience.</p> <p>It is understood that additional income targets have been set for commercial property assets of £0.5m per annum from 2017/18 for the next three years.</p> <p>Aside from this annual additional income target, the longer term ambitions for commercial assets have not been defined.</p> <p>Since the income target was set, one acquisition has been made, Delta 900, at a cost of £3.55m and which would result in an annual net increase in income of £71,536, once the borrowing costs are deducted. In the short term, while the acquisition is funded from existing balances, the annual surplus will increase to £180,141.</p> <p>The recent disposal of the Bus Depot will reduce the annual rental income by £293,000.</p> <p>There is a risk that the 2017/18 income target may not be achieved.</p> <p>It is not clear how the £0.5m income target was set, however the Head of Property Assets estimates that investment of approximately £100m would be needed in order to generate this amount of additional income, net of costs.</p>	<p>The longer term ambitions for commercial assets should be determined and documented.</p> <p>In their report published in September 2016, the NLGN² recommended that <i>'investment strategies must balance ambition with prudence - councils should publish a 25 year forward view of their investment strategies showing how they have managed risk and demonstrating that they have not committed local taxpayers to unacceptably high levels of risky debt. This should include modelling for a post Brexit downturn'</i>.</p> <p>The income target for property assets should be clearly calculated to ensure that it is understood and based on realistic expectations.</p> <p>Commercial asset actual income generation vs estimates should be reported monthly, taking into account the long term effect of acquisitions and disposals.</p> <p>Priority: High</p>	<p>Head of Property Assets</p> <p>February 2018</p>	<p>Agreed – this will link to the MTRP which now has a 4 year income strategy.</p>

²NLGN – New Local Government Network – Securing a Resilient Future: Capital Spending for Social Value (September 2016)

Swindon Internal Audit Services: Commercial Assets

Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
2	<i>Risk: Processes</i>			
2.1	<p>It is too early to assess whether the planned approach to identifying and responding to investment opportunities is comprehensive whilst allowing officers to respond quickly. However, the details contained within the Cabinet report seem reasonable and reflect the approaches found at other local authorities.</p> <p>A number of further actions were identified in the report that need to be actioned in order to ensure appropriate governance arrangements are in place for future investment opportunities and the risks associated with commercial investments are mitigated, where possible.</p> <p>These actions are in development and need to be completed as soon as possible.</p>	<p>As is planned, the following should be devised:</p> <ul style="list-style-type: none"> • Commercial Investment Strategy Board and Terms of Reference • Property Investment Strategy • Investment and Appraisal Criteria (See Appendix C for examples found during the audit). This should include a risk assessment for each potential investment. • Target rate of return which is consistent with the assumptions made in the MTRP • A definition of what 'good' is in relation to the type of asset, location and tenant. • The level at which a cap on the percentage of income that is derived from a single organisation or tenant is set and a cap on the single asset value as a percentage of gross asset value. • The appointment of investment advisors. <p>Priority: High</p>	<p>Head of Property Assets December 2017</p>	<p>Agreed – the actions listed in the recommendations have commenced.</p>

Swindon Internal Audit Services: Commercial Assets

Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
3	<i>Risk: Portfolio Management</i>			
3.1	<p>As part of the drafting of the Commercial Investment Strategy Cabinet Report in December 2016, a summary of the current asset value of each asset category was prepared along with their respective current rental income and gross yield.</p> <p>This information was not included in the final report but does provide some general performance information. Based on this information, it was concluded by the Regeneration and Projects Officer that the overall rate of return from the existing estate of investment properties was 8.8% and considered to be healthy.</p> <p>It was noted that the portfolio is quite heavily reliant on the ground rent portfolio to reduce risk exposure and that the industrial sector is under represented.</p> <p>Aside from this analysis, there is no other information collated regularly on the makeup of the portfolio.</p> <p>Consequently it is not possible to confirm that the commercial asset portfolio is being proactively managed.</p>	<p>A review of the existing commercial portfolio should be formally conducted to consider:</p> <ul style="list-style-type: none"> • The composition of the Council's portfolio • A review of types of assets and their potential • The Council's key corporate plan objectives and how they link to the property portfolio • Areas for potential change and development of the property portfolio • The risk of existing tenancies. <p>Following this review, a gap analysis of the commercial assets portfolio should be conducted in order to inform the Council's Property Investment Strategy (see AP 2.1 above).</p> <p>Consideration should be given as to whether the following Guiding Principles³ are appropriate:</p> <ul style="list-style-type: none"> • To create a portfolio that minimises management costs and resources • To increase returns and create higher gross income • To ensure that the Council is not exposed to unduly high risk • To create a portfolio that is focussed on long-term sustainable performance and will have fewer assets but with good prospects for long-term growth • To dispose of assets which are underperforming, have limited potential for rental or value growth, or are likely to have disproportionately high resource implications. <p>Priority: High</p>	<p>Head of Property Assets</p> <p>February 2018</p>	<p>Agreed – this information will be used to inform the development of the Asset Management Strategy and Plan referred to in 1.1 above.</p>

³ These Guiding Principles were taken from a 2014 report produced by Montague Evans where they were commissioned by Rushmoor Borough Council to assess the health of its property portfolio and to provide advice on the Council's approach to investment properties.

Swindon Internal Audit Services: Commercial Assets

Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
3	<i>Risk: Portfolio Management</i>			
3.2	<p>The operating costs of the Council's commercial assets have not been calculated.</p> <p>It has also not been possible to obtain clear details of the following:</p> <ul style="list-style-type: none"> • Rent Arrears and bad debts • Voids • NNDR liability • Staffing costs • Overheads • Repairs and Maintenance • Backlog maintenance • Opportunity Costs • Legal costs <p>As a result, the financial performance of the commercial property portfolio and the returns made from investment may be being overstated.</p> <p>For example, a report was produced on 14/2/17 of all outstanding debts which have been raised under the transaction for Commercial Rent and are more than 30 days overdue. The total outstanding debt was £715,407.36 with £101,572.52 of this identified for write off (19.4% and 2.8% of annual gross rental income respectively).</p> <p>In addition, without details of these costs it is not possible to properly assess market risk and opportunities to make informed decisions about the future of the portfolio. It is also difficult to compare the performance of the portfolio against other forms of investment.</p>	<p>When calculating the financial performance of the commercial property portfolio all operating costs should be identified and accounted for.</p> <p>Once these costs have been calculated they should be compared to other local authorities to determine whether they are reasonable.</p> <p>Priority: High</p>	<p>Head of Property Assets</p> <p>December 2017</p>	<p>Agreed – operating costs need to be understood in order to report accurately on the performance of the portfolio.</p>

Swindon Internal Audit Services: Commercial Assets

Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
3	<i>Risk: Portfolio Management</i>			
3.3	<p>Performance of the Council's commercial assets are not benchmarked.</p> <p>Officers explained that this may not be beneficial due to differing market factors in other local authorities which would make it difficult to properly compare.</p>	<p>Benchmarking should be conducted to identify and apply best practices from industry and government to improve the performance of the property assets and services.</p> <p>The 2015-16 CIPFA Benchmarking Property Services Value for Money Exercise used the following to compare the management of investment property:</p> <ul style="list-style-type: none"> • Total Income from Investment Property • Total Cost of the Management of Tenanted Non-Residential Property – Investment Property • Total Cost to Income Ratio • Average Cost of Management Per Asset • Average Income per Asset • Average Income per m2 • Number of staff FTE engaged on the Management of Tenanted Non-Residential Property - Investment Property • Average Salary per FTE engaged on the Management of Tenanted Non-Residential Property - Investment Property <p>Priority: Medium</p>	<p>Head of Property Assets</p> <p>February 2018</p>	<p>Agreed</p>

Swindon Internal Audit Services: Commercial Assets

Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
3	<i>Risk: Portfolio Management</i>			
3.4	<p>Aside from the additional income target set for commercial assets, referred to in AP 1.4 above, there are no set performance indicators for the service.</p> <p>The 2016/17 Business Plan for Property includes the following actions to improve performance in the next two years:</p> <ul style="list-style-type: none"> • A restructure has been completed to maximise the commercial return from non-operational assets and improving the use of data to help inform decision making. • Support has been obtained to sell low yielding assets and acquire higher yielding assets to help maintain/increase income whilst accepting a higher level of risk to achieve this. <p>However, no performance indicators have been included in the Business Plan.</p> <p>Consequently, it is not possible to assess whether the actions have achieved the expected outcomes, including maximising commercial returns.</p>	<p>Performance indicators should be established for non-operational/commercial assets.</p> <p>Examples of relevant performance indications used by City of York Council include:</p> <ul style="list-style-type: none"> • Increase the rent roll by 2½% per annum net of sales. • Reduce the cost of management (now 20% in total). 15% is the first target figure. • To increase the percentage of rent collected within the quarter due (currently 98%). • To complete 20% of condition surveys for each of the next 5 year to assess repair backlogs. • To monitor capital receipts through the Asset Management Group. • To revalue 5 yearly. • To maintain full occupation – keeping the void rate less than 3% of properties. <p><i>Note – these performance indicators are used by the City of York Council and the percentages included are their targets, it is acknowledged that they may not be appropriate or applicable to Swindon but are included as an example.</i></p> <p>Regular monthly reports on the performance of the estate should be produced. These reports should provide a general update on the management of the estate and issues arising, and cover in detail all aspects of income, debt management, lettings activity and also disposals across the corporate portfolio as a whole.</p> <p>Priority: High</p>	<p>Head of Property Assets</p> <p>February 2018</p>	Agreed

Swindon Internal Audit Services: Commercial Assets

Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
3	<i>Risk: Portfolio Management</i>			
3.5	<p>The current process for recording and reporting on property assets is reliant on disjointed software, excel spreadsheets and paper processes. Whilst these processes are known to the Property Team, they are not streamlined or efficient.</p> <p>Information requested by the Auditor, such as a list of outstanding/overdue rent reviews could not be provided.</p> <p>The service is in the process of upgrading the GIS software currently used to record property assets and lease information. It is anticipated that the upgrade will allow the service to improve data management.</p> <p>Alongside this, discussions are underway with an existing provider, CoStar⁴, as to how the service can use them to make more effective use of their data by providing them with online access to commercial property current availability, comparable evidence for valuations, tenants, and lease data including lease breaks and reviews.</p> <p>Timely access to property and facilities management data to support strategic asset planning, as well as performance monitoring is essential.</p>	<p>The property asset management data required to enable the service area to manage and report on the performance of the commercial asset portfolio should be identified.</p> <p>The existing data management arrangements should then be reviewed to determine whether it is capable of providing the required information in a timely and accurate manner.</p> <p>Priority: Medium</p>	<p>Head of Property Assets with advice and support from IT</p> <p>March 2018</p>	<p>Agreed – this links to the Council's digitalisation programme.</p>

⁴ Costar are a commercial property information and analytics provider. The company's suite of online service offerings includes information about space available for lease, comparable sales information, tenant information and information about properties for sale. Its service span all commercial property types, including office, industrial, retail, land, mixed-use, hospitality and multifamily.

Swindon Internal Audit Services: Commercial Assets

Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
3	<i>Risk: Portfolio Management</i>			
3.6	<p>A Property Information spreadsheet was supplied to the Auditor listing all property assets, their current rent, asset value along with the lease termination date and next rent review date. This showed a number of properties where the rent review date had passed and/or the termination date had passed. There was no other additional information recorded to note the reason for the elapsed dates.</p> <p>In addition, a number of properties have a 'Tenancy at Will'. This agreement can be terminated at any time by either the tenant or the Council and it exists without a contract or lease and is unspecific in duration or the exchange of payment.</p> <p>It was not possible to establish the reasons for these due to staff unavailability and lack of audit time.</p> <p>Whilst it is acknowledged that it is likely that Officers are aware of these properties and the reasons for the apparent overdue reviews, there is a risk that rental income may not be maximised.</p>	<p>Outstanding lease events should be resolved and a review of all properties subject to a 'tenancy at will' should be conducted to ensure rental income is maximised.</p> <p>Priority: Medium</p>	<p>Head of Property Assets</p> <p>January 2018</p>	Agreed

Swindon Internal Audit Services: Commercial Assets

APPENDIX A

Standard Audit Opinions	Standard Audit Opinion System Control
<p>The audit opinion is based on two different criteria the first is materiality of the system and its impact on the Council if there was a system failure. This has been split into High, Medium or Low.</p> <p>The second criteria is the standard of control found within the system audited. This has been categorised into 4 different levels i.e. high; satisfactory; significant improvements required and fundamental weaknesses identified. Each of these categories has a standard opinion (see below).</p> <p>The combination of these two factors gives an overall risk assessment to the Council of one of four scores i.e. significant, of concern, moderate or minimal (see Overall Opinion section in the main report).</p>	<p>Audit Opinion 1. <i>High standard</i></p> <p>The auditor completing the review concluded the significant controls are in place and operating effectively and only minor recommendations have been made</p>
	<p>Audit Opinion 2. <i>Satisfactory standard</i></p> <p>The auditor completing the review concluded that most of the significant controls are in place and operating satisfactorily although some non-compliance was identified and therefore there is scope for improvement.</p>
	<p>Audit Opinion 3. <i>Significant improvements required</i></p> <p>The auditor completing the review concluded that existing procedures needed to be improved to ensure that they are fully reliable. A number of significant recommendations have been made to improve missing or failing controls.</p>
	<p>Audit Opinion 4. <i>Fundamental weaknesses identified</i></p> <p>The auditor completing the review concluded that the matters arising from the review are sufficiently significant to place doubt on the reliability of the procedures reviewed. Implementation of the recommendations made is a priority to ensure that reliance can be placed on the system.</p>

Acknowledgements

Internal Audit would like to acknowledge and thank the following Officers who contributed to the review:

Job Title

Head of Non Operational Property

Regeneration and Projects Officer: Economy and Skills

Deputy Leader of the Council and Cabinet Member for Finance and Corporate Services

Head of Technical Finance

Director of Law and Democratic Services

Property Data Manager

Head of Operational Property

Credit Control and Revenues Monitoring Officer

Head of Conveyancing, Environment and Contracts

Example Investment and Appraisal Criteria

	Score	4	3	2	1	0
SCORING CRITERIA⁵	Weighting Factor	Excellent/ Very Good	Good	Acceptable	Marginal	Unacceptable
Location	12	Major Prime	Micro Prime	Major Secondary	Micro Secondary	Tertiary
Tenancy Strength	10	Single Tenant with strong financial covenant	Single Tenant with good financial covenant	Multiple tenants with strong financial covenant	Multiple tenants with good financial covenant	Tenants with poor financial covenant strength
Tenure	9	Freehold	Lease 125 years plus	Lease between 50 & 125 years	Lease between 20 & 50 years	Lease less than 20 year
Occupiers lease length	5	Greater than 10 years	Between 7 and 10 years	Between 4 & 7 years	Between 2 & 4 years	Less than 2 years: vacant
Repairing Terms	4	Full repairing & insuring	Internal repairing – 100% recoverable	Internal repairing – partially recoverable	Internal repairing – non recoverable	Landlord
Lot Size	2	Between £6m and £12m	Between £4m & £6m or £12m & £18m	Between £2m & £4m or £18m & £20m	Between £1m & £2m or £20m & £25m	Less than £1m or more than £25m

⁵ Criteria taken from Guildford Borough Council's Asset Investment Strategy. Minimum score of 100 out of a maximum score of 168.

UPDATED MANAGEMENT RESPONSE TO THE INTERNAL AUDIT REVIEW OF COMMERCIAL ASSETS

JANUARY 2018

Action Plan

The purpose of this action plan is to provide a summary of the matters arising during the audit of Commercial Assets, together with the recommendations to mitigate risks, the response to the recommendations, along with the officer responsible and timescale for implementation. In order for you to identify the most significant matters arising, which affect the reliance that can be placed on the controls reviewed, the recommendations have been prioritised.

Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
1	<i>Risk: Strategy and Policy</i>			
1.1	<p>A Property Strategy was approved by Cabinet on 15.12.15 and this was updated in a Resources Overview and Scrutiny Committee Report in 19.3.15.</p> <p>This sets out the purpose of the portfolio of non-operational property and the objectives and general direction of the property base.</p> <p>The Council does not have an Asset Management Strategy or Asset Management Plan, therefore it is not possible to determine how the Property Strategy supports the delivery of the Council's overall objectives.</p>	<p>An Asset Management Strategy and Asset Management Plan should be devised detailing the long term approach to management of the assets, derived from, and consistent with, the Council's overall corporate objectives.</p> <p>Priority: Medium</p>	<p>Head of Property Assets</p> <p>February 2018</p> <p>(revised timescale June 2018)</p>	<p>Agreed</p> <p>Updated below.</p>

Updated management response from Head of Property Assets: The existing Property Strategy is still relevant but there is recognition that it should be updated at least every three years.

There is significant on-going activity in this area:

- Following on from December 2016 Cabinet which approved a commercial investment strategy, Hartnell Taylor Cook have been commissioned to review the non-operational (commercial) estate. Their review will also include the production of an assessment criteria for future investment but it was felt that the current estate needed to be put in order before investing further. Their report is due in a couple of weeks.
- A review of operational assets will then be carried out.
- A corporate landlord review is also being carried out on Health and safety in buildings following an internal audit review. The outcome of this will also be relevant to the Asset Management Plan. The outcome of this is planned for the end of February.

The above will help inform the asset management strategy and plan which is expected to be ready by the end of June 2018

Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
1	<i>Risk: Strategy and Policy</i>			
1.2	<p>A Commercial Investment Strategy has been devised which was approved at the December 2016 Cabinet Meeting.</p> <p>The Cabinet report notes that the Strategy will support the three themes set out in the 2016/17 Budget Management, 2017/18 Draft Budget and Medium Term Resourcing Plan to respond to the financial challenges reported to Cabinet in October 2016.</p> <p>It does not, however, refer to links between any other relevant strategies or policies, such as the Economic Strategy, Local Plan or Commercialisation Strategy.</p>	<p>Links between the Commercial Investment Strategy and other relevant Council strategies and plans should be identified and reviewed to ensure they do not conflict.</p> <p>Priority: High</p>	<p>Corporate Director: Resources and Growth</p> <p>February 2018 (revised timescale June 2018)</p>	<p>Agreed</p> <p>Updated below.</p>
<p>Updated management response from Head of Property Assets: Part of the work Hartnell Taylor Cook have been commissioned to do is to draft an investment strategy. This will be from the view of a commercial agent and will need to be 'feathered in' with existing and future Council priorities, strategies etc. Their report is due by the end of February 2018 with, as per 1.1, the asset management strategy and plan expected by the end of June 2018.</p> <p>Updated management response from Head of Finance – Deputy S151: Changes to the Prudential Code will mean that the Council's Capital Strategy going forward will not only include cash and bank investments but also commercial investment. We will be developing the reporting of this over the next 6-12 months. The Capital Strategy will link capital and commercial investment and funding to Council strategies and policies.</p>				

Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
1	<i>Risk: Strategy and Policy</i>			
1.3	<p>The Commercial Investment Strategy report identified specific mitigation measures with regard to the risks associated with commercial property investments. However a risk register is not in place for property assets in general.</p> <p>General risks can include a fall in capital and rental values, tenants defaulting and an increase in financing costs. All these factors could have an impact on the net return to the Council.</p> <p>The 2016/17 Business Plan for Property notes that <i>'Commercial rental income has been maintained in line with budget targets but there is an ongoing challenge to maintain rent levels due to the higher rental assets becoming obsolete and the risk of tenant failure'</i>.</p>	<p>A risk management process should be introduced to the property assets function to ensure there is informed decision making.</p> <p>This should include production and regular review of a property assets risk register, identification of mitigating actions and a review to ensure they effectively address the risks identified. Relevant risks should be escalated to the economy risk register to be reviewed at SMT meetings.</p> <p>Priority: High</p>	<p>Head of Property Assets</p> <p>February 2018 (revised timescale June 2018)</p>	<p>Agreed – This will be linked with 1.1 above.</p> <p>Updated below.</p>
<p>Updated management response from Head of Property Assets: Again, this will drop out of the review of the non-operational estate. The Property Asset business plan for 2018/19 will include a review of risks etc.and other measures for reviewing the performance of the non operational estate</p>				

Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
1	<i>Risk: Strategy and Policy</i>			
1.4	<p>Throughout the audit, officers stated that the purpose of the Commercial Investment Strategy was purely to generate income to help deliver long-term financial resilience.</p> <p>It is understood that additional income targets have been set for commercial property assets of £0.5m per annum from 2017/18 for the next three years. Aside from this annual additional income target, the longer term ambitions for commercial assets have not been defined.</p> <p>Since the income target was set, one acquisition has been made, Delta 900, at a cost of £3.55m and which would result in an annual net increase in income of £71,536, once the borrowing costs are deducted. In the short term, while the acquisition is funded from existing balances, the annual surplus will increase to £180,141.</p> <p>The recent disposal of the Bus Depot will reduce the annual rental income by £293,000.</p> <p>There is a risk that the 2017/18 income target may not be achieved.</p> <p>It is not clear how the £0.5m income target was set, however the Head of Property Assets estimates that investment of approximately £100m would be needed in order to generate this amount of additional income, net of costs.</p>	<p>The longer term ambitions for commercial assets should be determined and documented.</p> <p>In their report published in September 2016, the NLGN¹ recommended that <i>'investment strategies must balance ambition with prudence - councils should publish a 25 year forward view of their investment strategies showing how they have managed risk and demonstrating that they have not committed local taxpayers to unacceptably high levels of risky debt. This should include modelling for a post Brexit downturn'</i>.</p> <p>The income target for property assets should be clearly calculated to ensure that it is understood and based on realistic expectations.</p> <p>Commercial asset actual income generation vs estimates should be reported monthly, taking into account the long term effect of acquisitions and disposals.</p> <p>Priority: High</p>	<p>Head of Property Assets February 2018</p> <p>(revised timescale June 2018)</p>	<p>Agreed – this will link to the MTRP which now has a 4 year income strategy.</p> <p>Updated below.</p>
<p>Updated management response from Head of Finance – Deputy S151: Budgets are monitored closely with each property asset being reviewed in detail through monthly meetings between the finance team and property teams. Any new investment purchases will be brought in to this existing monitoring process. The current Income target of £500k per annum increasing year on year has been re-profiled over the 2 years 2018/19 and 2019/20, partly to allow the Hartnell Taylor Cook report to be produced and inform realistic targets.</p>				

¹NLGN – New Local Government Network – Securing a Resilient Future: Capital Spending for Social Value (September 2016)

Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
2	<i>Risk: Processes</i>			
2.1	<p>It is too early to assess whether the planned approach to identifying and responding to investment opportunities is comprehensive whilst allowing officers to respond quickly. However, the details contained within the Cabinet report seem reasonable and reflect the approaches found at other local authorities.</p> <p>A number of further actions were identified in the report that need to be actioned in order to ensure appropriate governance arrangements are in place for future investment opportunities and the risks associated with commercial investments are mitigated, where possible.</p> <p>These actions are in development and need to be completed as soon as possible.</p>	<p>As is planned, the following should be devised:</p> <ul style="list-style-type: none"> • Commercial Investment Strategy Board and Terms of Reference • Property Investment Strategy • Investment and Appraisal Criteria (See Appendix C for examples found during the audit). This should include a risk assessment for each potential investment. • Target rate of return which is consistent with the assumptions made in the MTRP • A definition of what 'good' is in relation to the type of asset, location and tenant. • The level at which a cap on the percentage of income that is derived from a single organisation or tenant is set and a cap on the single asset value as a percentage of gross asset value. • The appointment of investment advisors. <p>Priority: High</p>	<p>Head of Property Assets</p> <p>December 2017 (revised timescale June 2018)</p>	<p>Agreed – the actions listed in the recommendations have commenced.</p> <p>Updated below</p>
<p>Updated management response from Head of Property Assets: This is also being covered by the work Hartnell Taylor Cook are undertaking and their updated report reflecting officer input is expected within the next two weeks with the target to agree the final report by the end of February.</p>				

Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
3	<i>Risk: Portfolio Management</i>			
3.1	<p>As part of the drafting of the Commercial Investment Strategy Cabinet Report in December 2016, a summary of the current asset value of each asset category was prepared along with their respective current rental income and gross yield.</p> <p>This information was not included in the final report but does provide some general performance information. Based on this information, it was concluded by the Regeneration and Projects Officer that the overall rate of return from the existing estate of investment properties was 8.8% and considered to be healthy.</p> <p>It was noted that the portfolio is quite heavily reliant on the ground rent portfolio to reduce risk exposure and that the industrial sector is under represented.</p> <p>Aside from this analysis, there is no other information collated regularly on the makeup of the portfolio.</p> <p>Consequently it is not possible to confirm that the commercial asset portfolio is being proactively managed.</p>	<p>A review of the existing commercial portfolio should be formally conducted to consider:</p> <ul style="list-style-type: none"> • The composition of the Council's portfolio • A review of types of assets and their potential • The Council's key corporate plan objectives and how they link to the property portfolio • Areas for potential change and development of the property portfolio • The risk of existing tenancies. <p>Following this review, a gap analysis of the commercial assets portfolio should be conducted in order to inform the Council's Property Investment Strategy (see AP 2.1 above).</p> <p>Consideration should be given as to whether the following Guiding Principles² are appropriate:</p> <ul style="list-style-type: none"> • To create a portfolio that minimises management costs and resources • To increase returns and create higher gross income • To ensure that the Council is not exposed to unduly high risk • To create a portfolio that is focussed on long-term sustainable performance and will have fewer assets but with good prospects for long-term growth • To dispose of assets which are underperforming, have limited potential for rental or value growth, or are likely to have disproportionately high resource implications. <p>Priority: High</p>	<p>Head of Property Assets</p> <p>February 2018 (revised timescale June 2018)</p>	<p>Agreed – this information will be used to inform the development of the Asset Management Strategy and Plan referred to in 1.1 above.</p> <p>Updated below.</p>
<p>Updated management response from Head of Property Assets: see AP 1.1 above - the Hartnell Taylor Cook should be completed by the end of February 2018. Regular portfolio reviews will be undertaken with Hartnell Taylor Cook to monitor performance and assess any adjustments required</p>				

² These Guiding Principles were taken from a 2014 report produced by Montague Evans where they were commissioned by Rushmoor Borough Council to assess the health of its property portfolio and to provide advice on the Council's approach to investment properties.

Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
3	<i>Risk: Portfolio Management</i>			
3.2	<p>The operating costs of the Council's commercial assets have not been calculated.</p> <p>It has also not been possible to obtain clear details of the following:</p> <ul style="list-style-type: none"> • Rent Arrears and bad debts • Voids • NNDR liability • Staffing costs • Overheads • Repairs and Maintenance • Backlog maintenance • Opportunity Costs • Legal costs <p>As a result, the financial performance of the commercial property portfolio and the returns made from investment may be being overstated.</p> <p>For example, a report was produced on 14/2/17 of all outstanding debts which have been raised under the transaction for Commercial Rent and are more than 30 days overdue. The total outstanding debt was £715,407.36 with £101,572.52 of this identified for write off (19.4% and 2.8% of annual gross rental income respectively).</p> <p>In addition, without details of these costs it is not possible to properly assess market risk and opportunities to make informed decisions about the future of the portfolio. It is also difficult to compare the performance of the portfolio against other forms of investment.</p>	<p>When calculating the financial performance of the commercial property portfolio all operating costs should be identified and accounted for.</p> <p>Once these costs have been calculated they should be compared to other local authorities to determine whether they are reasonable.</p> <p>Priority: High</p>	<p>Head of Property Assets</p> <p>December 2017</p> <p>(revised timescale July 2018)</p>	<p>Agreed – operating costs need to be understood in order to report accurately on the performance of the portfolio.</p> <p>Updated below</p>
<p>Updated management response from Head of Property Assets: The position on arrears is monitored. In addition to rent for the commercial estate, which is around £4m, Credit Control collect a total of £6.2m a year of income related to commercial property, in addition to rents, the recovery of service charges, building insurance premiums and one-off windfall payments. Since 1/4/13, the total sum invoiced by credit control for commercial rent is £31.5m. The amount outstanding for more than 30 days is £0.5m, reflecting arrears of 1.65% of the amount invoiced. £185,000 has been written off over the period.</p> <p>Other costs are identified but work is ongoing to ensure a breakdown of all costs covered in a single budget, for example lift maintenance, can be applied to each property where appropriate. Also further work with finance on coding costs to improve cost allocation to individual assets is being undertaken over the next 5 months.</p>				

Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
3	<i>Risk: Portfolio Management</i>			
3.3	<p>Performance of the Council's commercial assets are not benchmarked.</p> <p>Officers explained that this may not be beneficial due to differing market factors in other local authorities which would make it difficult to properly compare.</p>	<p>Benchmarking should be conducted to identify and apply best practices from industry and government to improve the performance of the property assets and services.</p> <p>The 2015-16 CIPFA Benchmarking Property Services Value for Money Exercise used the following to compare the management of investment property:</p> <ul style="list-style-type: none"> • Total Income from Investment Property • Total Cost of the Management of Tenanted Non-Residential Property – Investment Property • Total Cost to Income Ratio • Average Cost of Management Per Asset • Average Income per Asset • Average Income per m2 • Number of staff FTE engaged on the Management of Tenanted Non-Residential Property - Investment Property • Average Salary per FTE engaged on the Management of Tenanted Non-Residential Property - Investment Property <p>Priority: Medium</p>	<p>Head of Property Assets</p> <p>February 2018</p> <p>(revised timescale September 2018)</p>	<p>Agreed</p> <p>Updated below.</p>
<p>Updated management response from Head of Property Assets: We have previously participated in the CIPFA benchmarking (2015/16) and are now planning to take part for 2018/19. Previous benchmarking has shown that the Council has a small team compared to the size of the estate which advises on all aspects of asset ownership, for example there is not a separate team for education assets. Benchmarking can only provide certain information and doesn't necessary reflect the priorities of individual councils for example how much spend is felt appropriate to allocate for the maintenance and improvement of assets. The results of the next benchmarking exercise will be reported more widely than in the past. The benchmarking commences in May 2018 and full results will be known in February 2019</p>				

Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
3	<i>Risk: Portfolio Management</i>			
3.4	<p>Aside from the additional income target set for commercial assets, referred to in AP 1.4 above, there are no set performance indicators for the service.</p> <p>The 2016/17 Business Plan for Property includes the following actions to improve performance in the next two years:</p> <ul style="list-style-type: none"> • A restructure has been completed to maximise the commercial return from non-operational assets and improving the use of data to help inform decision making. • Support has been obtained to sell low yielding assets and acquire higher yielding assets to help maintain/increase income whilst accepting a higher level of risk to achieve this. <p>However, no performance indicators have been included in the Business Plan.</p> <p>Consequently, it is not possible to assess whether the actions have achieved the expected outcomes, including maximising commercial returns.</p>	<p>Performance indicators should be established for non-operational/commercial assets.</p> <p>Examples of relevant performance indications used by City of York Council include:</p> <ul style="list-style-type: none"> • Increase the rent roll by 2½% per annum net of sales. • Reduce the cost of management (now 20% in total). 15% is the first target figure. • To increase the percentage of rent collected within the quarter due (currently 98%). • To complete 20% of condition surveys for each of the next 5 year to assess repair backlogs. • To monitor capital receipts through the Asset Management Group. • To revalue 5 yearly. • To maintain full occupation – keeping the void rate less than 3% of properties. <p><i>Note – these performance indicators are used by the City of York Council and the percentages included are their targets, it is acknowledged that they may not be appropriate or applicable to Swindon but are included as an example.</i></p> <p>Regular monthly reports on the performance of the estate should be produced. These reports should provide a general update on the management of the estate and issues arising, and cover in detail all aspects of income, debt management, lettings activity and also disposals across the corporate portfolio as a whole.</p> <p>Priority: High</p>	<p>Head of Property Assets</p> <p>February 2018 (revised timescale June 2018)</p>	<p>Agreed.</p> <p>Updated below.</p>
<p>Updated management response from Head of Property Assets: As per AP 1.3 above, the Business Plan will be prepared shortly and will include agreed performance indicators focussed on what is helpful for the Swindon and not necessarily what others are doing. For example a blanket indicator to increase rent by a set % could make premises unaffordable and increase the level of voids.</p>				

Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
3	<i>Risk: Portfolio Management</i>			
3.5	<p>The current process for recording and reporting on property assets is reliant on disjointed software, excel spreadsheets and paper processes. Whilst these processes are known to the Property Team, they are not streamlined or efficient.</p> <p>Information requested by the Auditor, such as a list of outstanding/overdue rent reviews could not be provided.</p> <p>The service is in the process of upgrading the GIS software currently used to record property assets and lease information. It is anticipated that the upgrade will allow the service to improve data management.</p> <p>Alongside this, discussions are underway with an existing provider, CoStar³, as to how the service can use them to make more effective use of their data by providing them with online access to commercial property current availability, comparable evidence for valuations, tenants, and lease data including lease breaks and reviews.</p> <p>Timely access to property and facilities management data to support strategic asset planning, as well as performance monitoring is essential.</p>	<p>The property asset management data required to enable the service area to manage and report on the performance of the commercial asset portfolio should be identified.</p> <p>The existing data management arrangements should then be reviewed to determine whether it is capable of providing the required information in a timely and accurate manner.</p> <p>Priority: Medium</p>	<p>Head of Property Assets with advice and support from IT</p> <p>March 2018</p> <p>(revised timescale June 2018)</p>	<p>Agreed – this links to the Council's digitalisation programme.</p> <p>Updated below.</p>
<p>Updated management response from Head of Property Assets: 20,000 documents relating to the ownership of the Council's asset base have been scanned and all property data has been held electronically for over five years. Certain key information is held on a back-up paper system as the GIS was not corporately supported. However, working with IT over recent years the GIS has recently been migrated on to a new corporately supported system, QGIS, which means back up paper records are not required. We are continuing to work with IT so that property data can be available on the Internet which has been a key driver for migrating to the new QGIS system.</p>				

³ Costar are a commercial property information and analytics provider. The company's suite of online service offerings includes information about space available for lease, comparable sales information, tenant information and information about properties for sale. Its service span all commercial property types, including office, industrial, retail, land, mixed-use, hospitality and multifamily.

Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
3	<i>Risk: Portfolio Management</i>			
3.6	<p>A Property Information spreadsheet was supplied to the Auditor listing all property assets, their current rent, asset value along with the lease termination date and next rent review date. This showed a number of properties where the rent review date had passed and/or the termination date had passed. There was no other additional information recorded to note the reason for the elapsed dates.</p> <p>In addition, a number of properties have a 'Tenancy at Will'. This agreement can be terminated at any time by either the tenant or the Council and it exists without a contract or lease and is unspecific in duration or the exchange of payment.</p> <p>It was not possible to establish the reasons for these due to staff unavailability and lack of audit time.</p> <p>Whilst it is acknowledged that it is likely that Officers are aware of these properties and the reasons for the apparent overdue reviews, there is a risk that rental income may not be maximised.</p>	<p>Outstanding lease events should be resolved and a review of all properties subject to a 'tenancy at will' should be conducted to ensure rental income is maximised.</p> <p>Priority: Medium</p>	<p>Head of Property Assets January 2018</p> <p>(revised timescale June 2018)</p>	Agreed and completed.
<p>Updated management response from Head of Property Assets: Completed. We have drilled down a lot more rigorously on the budget that picks these areas up. Monthly meetings are held with Finance and all Property related actions are triggered to maximise income. 'Tenancy at will' allows tenants to get in properties early and start paying rent. A full tenancy can then be granted when resources allow. Leases will be allowed to deliberately continue where a termination could lead to a rent reduction. Rent reviews where there is no evidence to support a rent increase are kept open in case evidence arises that could support pursuing an uplift.</p>				



Grant Thornton
An instinct for growth™

Swindon Borough Council
Civic Centre
Euclid Street
Swindon SN1 2JH

Grant Thornton UK LLP
2 Glass Wharf
Bristol
BS2 0EL

T +44 (0)117 3057600

www.grant-thornton.co.uk

17 January 2018

Dear Members of the Audit Committee

Certification work for Swindon Borough Council for year ended 31 March 2017

We are required to certify the Housing Benefit subsidy claim submitted by Swindon Borough Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments (PSAA) took on the transitional responsibilities for HB COUNT issued by the Audit Commission in February 2015.

We have certified the Housing Benefit subsidy claim for the financial year 2016/17 relating to subsidy claimed of £61.486 million.

We identified no significant issues from our certification work which we wish to highlight for your attention. We identified one issue which the rules encapsulated in HB Count required us to report to the Department for Work and Pensions via a Qualification Letter. The Claim was not amended. Further details are set out in Appendix A.

The indicative fee for 2016/17 for the Council was based on the final 2014/15 certification fees, reflecting the amount of work required by the auditor to certify the Housing Benefit subsidy claim that year. The indicative scale fee set by PSAA for the Council for 2016/17 was £13,500. This is set out in more detail in Appendix B.

Yours sincerely

for Grant Thornton UK LLP

Appendix A - Details of claims and returns certified for 2016/17

Claim or return	Value	Amended?	Amendment value	Qualified?	Comments
Housing benefits subsidy claim	£61,486,267	No	Not Applicable	Yes	See below

Findings from certification of housing benefits subsidy claim

We identified one case where a 'Carer's Allowance had been incorrectly applied resulting in an error of £15. We were required by the guidance in HB Count to test a further sample of 40 cases but found no further errors. We reported this matter to the DWP in line with the guidance.

We found one case where benefit had been underpaid due to the Council incorrectly applying a spare room deduction, impacting the claim by £45. This was drawn to the attention of officers and we noted this as an observation to the DWP.

Appendix B: Fees for 2016/17 certification work

Claim or return	2014/15 fee (£)	2016/17 indicative fee (£)	2016/17 actual fee (£)	Variance (£)	Explanation for variances
Housing benefits subsidy claim (BEN01)	18,000	13,500	13,500	0	
Total	18,000	13,500	13,500	0	

This page is intentionally left blank

Audit Committee Progress and Update Report for Swindon Borough Council *Year ended 31 March 2016*

17 January 2018

Page 75

Barrie Morris

Director

T 0117 3057708

E Barrie.Morris@uk.gt.com

Chris Hackett

Audit Manager

T 0117 3057876

E Chris.I.Hackett@uk.gt.com

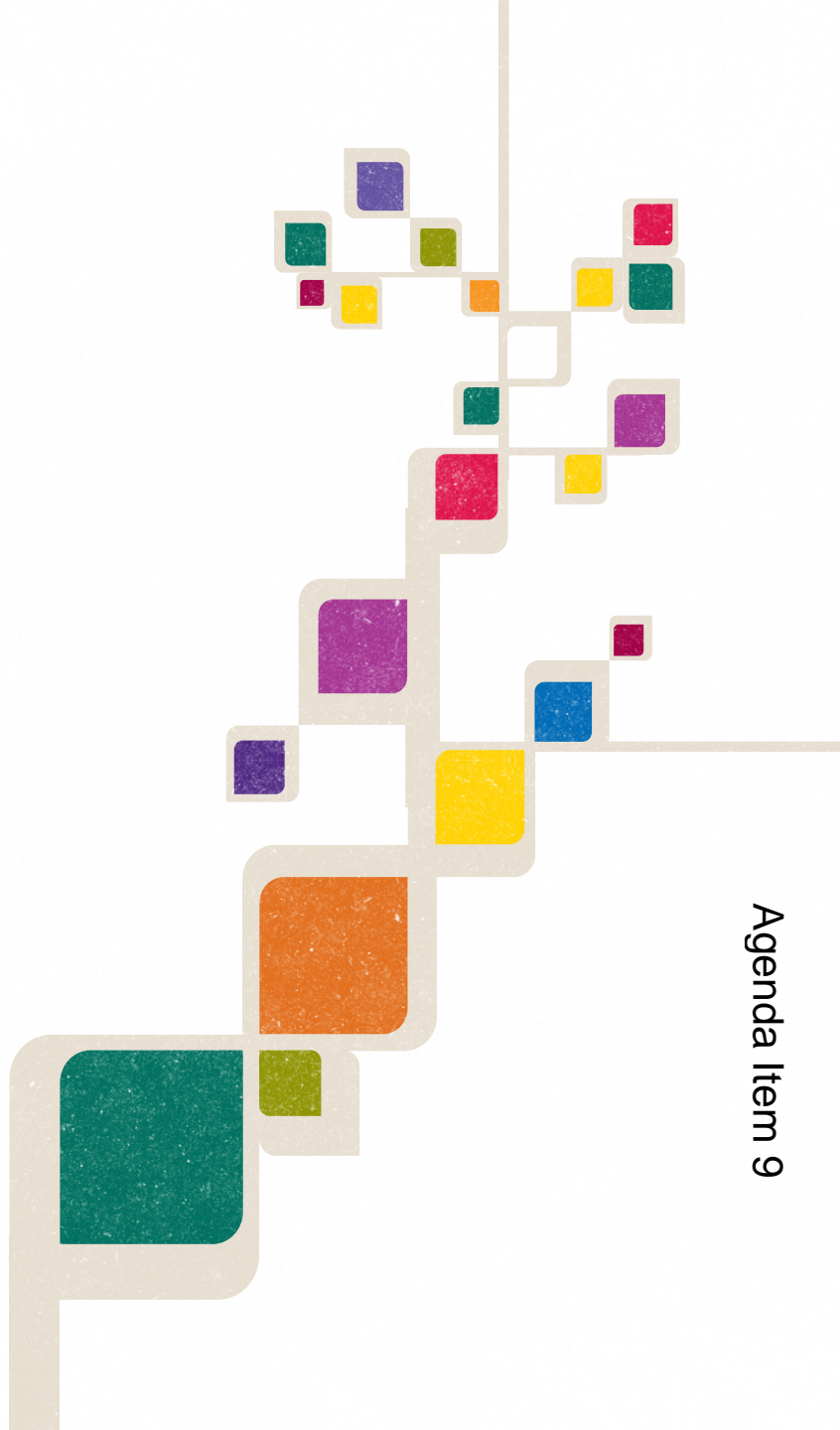
Anna McWilliam

Executive

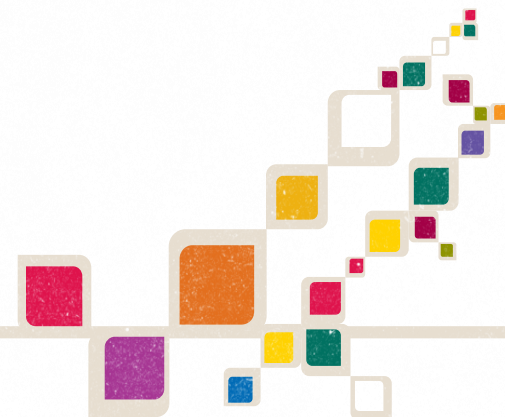
T 0117 3057611

E Anna.K.McWilliam@uk.gt.com

Agenda Item 9



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.



Contents

Page 77

Contents	Page
Introduction	4
Progress at January 2018	5
Sector issues and developments	9

Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

Members of the Audit Committee can find further useful material on our website www.grantthornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications including:

- Income generation is an increasingly essential part of providing sustainable local services ; <http://www.grantthornton.co.uk/en/insights/the-income-generation-report-local-leaders-are-ready-to-be-more-commercial/>
- Social enterprises are becoming increasingly common vehicles for delivering services that are not an 'essential' service for an authority but still important to the local community; <http://www.grantthornton.co.uk/en/insights/a-guide-to-setting-up-a-social-enterprise/>
- Fraud risk, 'adequate procedures', and local authorities; <http://www.grantthornton.co.uk/en/insights/fraud-risk-adequate-procedures-and-local-authorities/>
- Brexit and local government; <http://www.grantthornton.co.uk/en/insights/a-global-britain-needs-more-local-government-not-less/> and <http://www.grantthornton.co.uk/en/insights/brexit-local-government--transitioning-successfully/>

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.



Barrie Morris

Engagement Lead

T 0117 3057708

M 7771 976684

E Morris.Morris@uk.gt.com



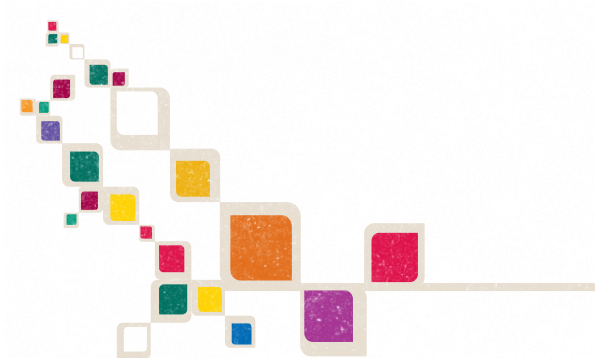
Chris Hackett

Manager

T 0117 3057876

M 07880 456130

E Chris.I.Hackett@uk.gt.com



Progress at 17 January 2018

2016/17 audit



2016/17 work	Completed	Comments
Housing Benefit Grant Certification We are required to complete work on the Housing Benefit subsidy return and to certify it.	Yes	Our work is summarised in our Certification Letter to the February meeting of the Audit Committee. We are required to issue a specific letter under the terms of our audit engagement from Public Sector Audit Appointments.

Progress at 17 January 2018

2016/17 audit




 **Progress against plan**
On track



 **Opinion and VfM conclusion**
Completed



 **Outputs delivered** Fee letter, accounts audit plan, opinion on the accounts and VfM conclusion, annual audit letter

Page 80

2016/17 work	Completed	Comments
Other Grant Certification work This comprises work on three returns.		
Homes and Communities Agency return	Yes	The Homes and Communities Agency (HCA) selected a scheme for audit which they were funding in Swindon, the scheme selected was Brookfield. We were required to obtain responses to a standard set of questions prescribed by the HCA and report our findings to the HCA. We noted the Council could not provide us with a signed and dated building contract. In addition the Council could not formally evidence the units delivered matched the sizes in the tender. We charged £2,500 for the work, the same as the previous year.
Teachers Pension Return	Yes	We completed an audit programme agreed with the Teacher's Pensions Agency (TPA) and issued a Reporting Accountant's Report. We noted a difference of £6,315 between the pension deductions on the Council's payroll system and the amounts reported to the TPA, with payroll showing the higher amount. The amount reported to TPA is built up by adding each monthly payroll rather than taking a year end figure. Officers understand the difference reflects alterations and adjustments done later to the payroll reflecting changes in circumstances but could not provide a breakdown. We charged £4,200 for this work, the same as last year.
Pooled capital receipts return	Not yet due	This work is due to be completed by January 30 th in line with revised guidance from DCLG. We will provide a verbal up-date at the meeting.

Progress at 17 January 2018

2017/18 audit



Progress against plan
On track



Opinion and VfM conclusion
On Track

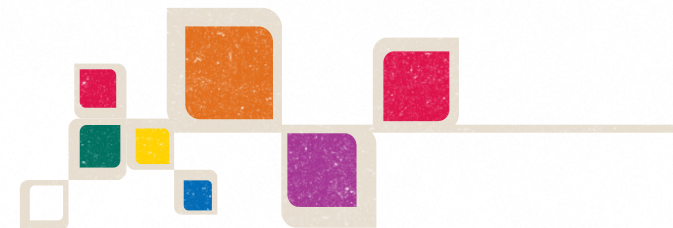


Outputs delivered Fee letter

Page 81

2017/18 work	Target	Completed	Comments
Fee Letter We issued the 'Planned' fee letter for 2017/18 in April 2016.	April 2017	April 2017	The 2017/18 fee letter was issued in April 2017. It was discussed at the November 2017 audit committee meeting.
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2017-18 financial statements. We also inform you of any subsequent changes to our audit approach.	28 February 2018	Not yet due	
Interim accounts audit Our interim fieldwork visit includes: <ul style="list-style-type: none"> • updating our review of the Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing 	March 2018	Not yet due	

Progress at 17 January 2018



2017/18 work	Target	Completed	Comments
Final accounts audit Including: <ul style="list-style-type: none"> Audit of the 2017-18 financial statements proposed opinion on the Council's accounts 	July 2018	Not yet due	
Value for money Including review of arrangements and risks identified in the Accounts Audit Plan.	July 2018	Not yet due	
Housing Benefit Grant Certification We are required to complete work on the Housing Benefit Subsidy claim.	November 2018	Not yet due	
Other Grant Certification We have agreed we will certify the following returns: <ul style="list-style-type: none"> Homes and Communities Agency return Teachers Pension Return Pooled capital receipts return 	November 2018	Not yet due	
Other activities We provide a range of workshops, along with network events for members and publications to support the Council.		On-going	
Annual Audit Letter	September 2018	Yes	

Sector issues and developments



Local Authority 2016/17 Revenue Expenditure and Financing

Sector Issues

DCLG has produced a summary of Local Authorities' 2016/17 provisional revenue spending and financing. It notes that Local government expenditure accounts for almost a quarter of all government spending and the majority of this is through local authority revenue expenditure. The summary is compiled from the Revenue Outturn (RO) returns submitted by all local authorities in England. Coverage is not limited to local councils in England and includes other authority types such as Police and Crime Commissioners and Fire authorities.

The headline messages include:

- Local authority revenue expenditure totalled £93.5 billion for all local authorities in England in 2016-17. This was 1.1% lower than £94.5 billion spent over 2015-16.
- Expenditure on Adult Social Care increased to £14.9 billion in 2016-17. This was £0.5 billion (3.6%) higher than in 2015-16. 2016-17 was first year local authorities were able to raise additional funding for Adult Social Care through the council tax precept.
- The largest decrease in local authority expenditure was on Education services. This was £0.8 billion (2.4%) lower in 2016-17 than in 2015-16. The majority of this decrease is due to local authority funded schools converting to academies.
- Local authorities are financing more of their expenditure from locally retained income. 40.4% of revenue expenditure was funded through council tax and retained business rates and 57.5% from central Government grants. The remaining 2.1% was funded by reserves and collection fund surpluses. These percentages were 38.7%, 60.4% and 0.9% respectively in 2015-16.
- Local authorities used £1.5 billion (6.2%) of the £24.6 billion reserves balance held at the start of the 2016-17.
- Local authorities' use of reserves was £1.1 billion higher in 2016-17 than in 2015-16. Due to changes in their capital programme, £0.5 billion of this increase is due to the Greater London Authority.

The full report is available at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/639755/Revenue_Expenditure_and_Financing_2016-17_Provisional_Outturn.pdf

Did you know....

This data set and many others are included in CFO Insights.

CFO Insights is the Grant Thornton and CIPFA online analysis tool. It gives those aspiring to improve the financial position of their organisation instant access to insight on the financial performance, socio-economic context and service outcomes of theirs and every other council in England, Scotland and Wales.

More information is available at:

<http://www.cfoinsights.co.uk/>

Grant Thornton

Page 85



Combined Authorities: Signs of Success

In her foreword to 'Building our Industrial Strategy' the Prime Minister states that the initiative "will help to deliver a stronger economy and a fairer society – where wealth and opportunity are spread across every community in our United Kingdom, not just the most prosperous places in London and the South East." Combined Authorities (CAs) – the newest model for the governance of local public services – are central to this.

In response to this, Grant Thornton and Bond Dickinson have jointly commissioned a report which provides an insight into the establishment of each combined authority in the context of their specific challenges. It is still early days for most combined authorities – the political and administrative difficulties of adopting this model are not to be under-estimated - but early signs are emerging of their potential to innovate and drive success.

The report benchmarks combined authorities using key indicators of growth, housing, transport and skills amongst others. We have also used our Vibrant Economy Index, which goes beyond financial returns and takes into account the wellbeing of society, to compare city regions. We believe that these benchmarks can serve as a baseline for assessment of progress over time.

Key findings from the report:

- CAs must begin to reduce the institutional blurring with historic local government structures that has occurred with their formation. As greater clarity emerges over their roles, functions, and profiles of individual mayors, their perceived legitimacy will increase.
- CAs stand and fall on their ability to add value through targeted investment, strategic co-ordination, joined-up policy and the leveraging in of additional resources (particularly additional private sector funds).
- There is no single checklist or set of criteria for measuring the success of mayors and combined authorities, each city region must articulate its own challenges and show progress in tackling them.
- A balanced set of benchmarks encompassing both economic and social success will, however, serve as a useful stimulus for the debate around the impact of the combined authority model over time.

Grant Thornton publications

Questions:

- Have you read our report?



<http://www.grantthornton.co.uk/en/insights/combined-authorities-signs-of-success/>

A Manifesto for a Vibrant Economy

Developing infrastructure to enable local growth

Cities and shire areas need the powers and frameworks to collaborate on strategic issues and be able to raise finance to invest in infrastructure priorities. Devolution needs to continue in England across all places, with governance models not being a “one-size-fits all”. Priorities include broadband, airport capacity in the North and east-west transport links.

Addressing the housing shortage, particularly in London and the Southeast, is a vital part of this. There simply is not enough available land on which to build, and green belt legislation, though designed to allow people living in cities space to breathe, has become restrictive and is in need of modernisation. Without further provision to free up more land to build on, the young people that we need to protect the future of our economy will not be able to afford housing, and council spending on housing the homeless will continue to rise.

Business rates are also ripe for review – a property-based tax is no longer an accurate basis for taxing the activity and value of local business, in particular as this source of funding becomes increasingly important to the provision of local authority services with the phasing out of the Government’s block grant.

Demographic and funding pressures mean that the NHS no longer remains sustainable, and the integration of health and social care – recognised as critical by all key decision makers – remains more aspiration than reality.

There is an opportunity for communities to take a more holistic approach to health, for example creating healthier spaces and workplaces and tackling air quality, and to use technology to provide more accessible, cheaper diagnosis and treatment for many routine issues

Finding a better way to measure the vibrancy of places

When applied to a place we can see that traditional indicators of prosperity such as GVA, do not tell the full story. To address this we have developed a [Vibrant Economy Index](#) to measure the current and future vibrancy of places. The Index uses the geography of local authority areas and identifies six broad objectives for society: prosperity, dynamism and opportunity, inclusion and equality, health wellbeing and happiness, resilience and sustainability, and community trust and belonging. The city of Manchester, for example, is associated with dynamic economic success. While our Index confirms this, it also identifies that the Greater Manchester area overall has exceptionally poor health outcomes, generations of low education attainment and deep-rooted joblessness. These factors threaten future prosperity, as success depends on people’s productive participation in the wider local economy, rather than in concentrated pockets.

Every place has its own challenges and opportunities. Understanding what these are, and the dynamic between them, will help unlock everybody’s ability to thrive. Over the coming months we will continue to develop the Vibrant Economy Index through discussions with businesses, citizens and government at a national and local level.

Guy Clifton – Head of Local Government Advisory

Grant Thornton publications

Question:

- Have you read our manifesto?



<http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/documents/creating-manifesto-vibrant-economy-draft-recommendations.pdf>

International Consortium on Governmental Financial Management

Introduction

Grant Thornton and the International Consortium on Governmental Financial Management (ICGFM) partner every other year to perform an international survey of Public Financial Leaders.

In 2015 the theme was innovation in public financial management. This year's survey has been designed to identify and describe emerging issues around transparency and citizen engagement – building on the themes highlighted in the 2015 report.

The insights will be published in a report later in 2017 and we would be delighted if you were able to spend some time completing the brief on-line questionnaire which can be found [here](#). Your Audit Manager will be able to provide you with a link to the survey if required.

Please note that the ICGFM and Grant Thornton will not identify, or attribute thoughts and quotations to, individual survey respondents in the final 2017 report. This preserves your anonymity, so please respond freely, honestly and openly.



We have again partnered with the ICGFM to survey Financial Leaders

Question:

- Have you completed the ICGFM survey on transparency and citizen engagement?



Innovation in public financial management
in an increasingly complex and uncertain global environment

Global financial management leaders survey 2015





© 2016 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grant-thornton.co.uk

This page is intentionally left blank

Head of Internal Audit Update

Audit Committee

Date: 6 February 2018

Author: Head of Internal Audit

Wards: None

Parishes Affected: None

1. Purpose and Reasons

- 1.1 To present Members with a summary of the main issues arising from the Internal Audit reports finalised since the Audit Committee meeting in November 2017, to update Members with regard to progress against the annual internal audit plan and other key issues.
- 1.2 The Council's Audit Committee has a strategic role to ensure that the Council's assurance framework is operating effectively. To this end it should seek assurance that key areas that contribute to this framework are operating properly.
- 1.3 The Council's Internal Audit section is a key component of the assurance framework and therefore it is essential that this Committee monitor its performance against the annual plan along with the implementation of agreed recommendations by Client departments.

2. Recommendations

The Committee is recommended to:

- 2.1 It is recommended that Audit Committee note the report.

3. Detail

Progress on completion of Internal Audit Plan 2017/18

- 3.1 Details of audits finalised since the November Audit Committee meeting are set out in Appendix 1. The appendix sets out the key audit recommendations made along with the overall risk assessment to the Council.
- 3.2 Appendix 2 sets out progress against the 2017/18 plan as at the year-end. As at the end of January 2018, 73% of the number of audits in the audit plan has been completed against a target of 78%.

Staffing update

- 3.3 At the last Committee meeting the Head of Internal Audit reported that someone had been recruited to the post of senior Auditor but unfortunately this appointment had not worked out and the post is now vacant again. The Head of Internal Audit is currently reviewing the team structure.

Further information on the subject of this report can be obtained from Nick Hobbs, Direct Dial Telephone Number: 01793 463940, nhobbs@swindon.gov.uk.

Head of Internal Audit Update

Audit Committee

Date: 6 February 2018

Corporate Fraud Team

- 3.4 Continued HRA funding for the Corporate Fraud Team has been agreed with the Head of Housing Services for 2018/19.
- 3.1 So far in 2017/18 the Corporate Fraud Team has received a total of 259 referrals. To the end of December 17, the team has:
- Recovered 16 housing properties (estimated savings £288,000)
 - Stopped 4 fraudulent right to buy applications (discount saved of £298,643)
 - Additional Bills Raised £15,267.47 (£11214.82 relating to HB)

4. Alternative Options

- 4.1 Not applicable

5. Implications, Diversity Impact Assessment and Risk Management

Financial and Procurement Implications

- 5.1 There are no direct financial implications arising from this report.

Legal and Human Rights Implications

- 5.2 Internal Audit is a statutory requirement of the Accounts and Audit Regulations 2015. The Internal Audit service also provides assurance to the Director of Finance regarding the requirements of Section 151 of the Local Government Act 1972.

All Other Implications (including Staff, Sustainability, Health, Rural, Crime and Disorder)

- 5.3 None

Diversity Impact Assessment

- 5.4 None

Risk Management

- 5.5 Potential risks to the Council are identified in the individual audit reports summarised in Appendices 1 and 2.

6. Consultees

- 6.1 The Director of Finance (Section 151 Officer) and Director of Law and Democratic Services (Monitoring Officer) are consulted in respect of all reports.

Further information on the subject of this report can be obtained from Nick Hobbs, Direct Dial Telephone Number: 01793 463940, nhobbs@swindon.gov.uk.

Head of Internal Audit Update

Audit Committee

Date: 6 February 2018

7. Background Papers

7.1 None

8. Appendices

8.1 Appendix 1: Internal Audit Reports finalised since the November 2017 Audit Committee.

8.2 Appendix 2: Progress against the Internal Audit plan 2017/18

This page is intentionally left blank

Internal Audit reports finalised since the previous Audit Committee meeting in November 2017

Audit Title:	Compliance with Contract Standing Orders				Date of Report:	12/1/2017	
Number of 'High Priority' Recommendations:	10	Current Audit Opinion:	3	Previous Audit Opinion:	-	Overall Evaluation (Risk):	Of Concern

Key Recommendations

The key recommendations made as a result of the review are:

- Implement the recommendations from the review to facilitate compliance with the Council's Contract Standing Orders and the EU Procurement Regulations
- Budget managers with procurement authorisations and any Officers with delegated responsibilities should be required to undertake mandatory training of the requirements of the online Procurement Toolkit.
- A standard and consistent approach to contract monitoring should be agreed and published then issued to all staff to promote and ensure compliance.
- The terms of reference for the Procurement Surgeries should be revised.
- An EU Procurement Regulation compliant contract should be put in place to ensure continuity of supply of temporary staff within Children's Services.
- Determine a single point for commissioning house and garden clearance services for Housing Estate Management.
- An analysis of Stores orders placed for materials and equipment should be conducted to determine the aggregate value of spend by category of materials or equipment in the last year.
- Details of the Passenger Transport contacts and payments made to Akcess Transport must be provided to the Procurement Surgery.
- For the supply of future furniture and office removal services put in place a Contract Standing Orders Compliant Contract, advertised through the South West Procurement Portal.
- A specification should be prepared for corporate building fire inspections to be conducted in the next year and a short-term tender put to market to ensure compliance with Contract Standing Orders.

Audit Title:	Care Leaver Payments				Date of Report:	13/12/17	
Number of 'High Priority' Recommendations:	2	Current Audit Opinion:	2	Previous Audit Opinion:	3	Overall Evaluation (Risk):	Minimal
<u>Key Recommendations</u> The key recommendations made as a result of the review are: <ul style="list-style-type: none"> • A clear strategy should be established that outlines the Council's approach to providing support for young people in need of developing financial management skills. • The legality of using a young person's leaving care grant to provide an advance, and then using this to offset unpaid balances, should be clarified with the Legal department. This applies equally to where the leaving care grant is used to pay debts or costs incurred by the young person. If considered legal, these terms and conditions should be clearly referenced in any information provided to young people regarding financial support. 							

Audit Title:	Corporate Reporting				Date of Report:	04/01/18	
Number of 'High Priority' Recommendations:	2	Current Audit Opinion:	3	Previous Audit Opinion:	NA	Overall Evaluation (Risk):	Of Concern
<u>Key Recommendations</u> The key recommendations made as a result of the review are: <ul style="list-style-type: none"> • The Council's senior leadership should work with the extended management team, Members, the public, partners and other stakeholders to determine a vision for how the Council will use and make data available to support Council transformation and efficient and effective delivery of services. A strategy and plan to deliver this vision should be produced that addresses data and information requirements across the organisation. • When developing the Council's strategy in relation to data and information, the barriers and opportunities identified in relation to current processes, technology, practices and organisational culture should be addressed. 							

Audit Title:	Newton Europe				Date of Report:		15/01/18	
Number of ‘High Priority’ Recommendations:	0	Current Audit Opinion:	NA	Previous Audit Opinion:	NA	Overall Evaluation (Risk):	NA	
<u>Key Recommendations</u>								
<ul style="list-style-type: none">Internal Audit were requested to carry out a review to give assurance on the approach being taken at Finance and Monitoring Board to oversee delivery of savings.The Auditor found that the relationship between the Council and Newton Europe had developed well and that substantial savings had been delivered from changes to management processes and service delivery. The Auditor found the change approach to be robust and will help to ensure that skills and competencies are being embedded in Swindon Borough Council staff, to enable long-term sustainable change.The Audit found that although there is risk inherent in delivering the required service change and savings, risks are being appropriately managed. No recommendations were made.								

Audit Title:	NNDR3 Certification Claim							
Date of Report:	26 th September 2017				Materiality/Impact:		N/a	
Number of 'High Priority' Recommendations:	0	Current Audit Opinion:	N/a	Previous Audit Opinion:	N/a	Overall Evaluation (Risk):	N/a	
<u>Key Recommendations</u> A certification audit was completed for the NNDR3 claim 2016/17. The data used in the completion of NNDR3 form was deemed accurate and no adjustment was required.								

Audit Title:	S151 Officer and Head of Internal Audit responsibilities						
Date of Report:	5 th May 2017				Materiality/Impact:		N/a
Number of 'High Priority' Recommendations:	0	Current Audit Opinion:	N/a	Previous Audit Opinion:	N/a	Overall Evaluation (Risk):	N/a
<u>Key Recommendations</u> A review of compliance with the CIPFA guidance on the role of the Chief Financial Officer (s.151 officer) and the Head of Internal Audit was completed. No significant issues were found.							

Audit Title:	Troubled Families Claim December 2017				Date of Report:	15/12/2017	
Number of 'High Priority' Recommendations:	-	Current Audit Opinion:	-	Previous Audit Opinion:	-	Overall Evaluation (Risk):	N/A
<u>Key Recommendations</u> A review of the December Troubled Families claim was undertaken with no key recommendations made.							

Audit Title:	Parking Enforcement				Date of Report:	18/12/2017	
Number of 'High Priority' Recommendations:	1	Current Audit Opinion:	2	Previous Audit Opinion:	-	Overall Evaluation (Risk):	Moderate
<u>Key Recommendations</u> The key recommendations made as a result of the review are: <ul style="list-style-type: none"> A review of the Oracle Holding Account used for Penalty Charge Notice income received should be conducted to identify the source of the unallocated funds. Regular reconciliations should also be conducted between income recorded as received on Chipside to income received through the cash management system to ensure it is accurately recorded. 							

Audit Title:	Lawn Primary					Date of Report:	19/01/2018		
Number of 'High Priority' Recommendations:	4	Current Audit Opinion:	3	Previous Audit Opinion:	-	Overall Evaluation (Risk):	Moderate		

Key Recommendations

The key recommendations made as a result of the review are:

- In line with the Financial Regulations for Schools, official orders should be raised on the FMS system at the point of order, when committing the School to the expenditure (with the exception of utilities bills, emergency purchases and staff reimbursements). Authorisation should be received from the appropriate person to ensure there is budget available before an order is placed with a supplier.
- For all purchases over £5,000 the School should obtain three written quotes, in compliance with the Financial Regulations for Schools. The selection of the supplier and the approval for expenditure over £5,000 should be made by Governors as per the Financial Regulations and the School's Scheme of Delegation. The School should retain evidence of this e.g. in Governor minutes, and email trails.
- The procedure for the receipt, recording and banking of income should be reviewed to ensure that there is split of duties between staff.
- The minutes of Governor meetings should be improved to include details of the key discussions held to enable the School to demonstrate that there appropriate governance arrangements in place and adequate scrutiny and challenge by Governors

Audit Title:	Treasury Management							
Date of Report:	07/12/2017				Materiality/Impact:		High	
Number of 'High Priority' Recommendations:	0	Current Audit Opinion:	1	Previous Audit Opinion:	1	Overall Evaluation (Risk):	Moderate	

Key Recommendations

There are no key recommendations made as a result of the review.

Audit Title:	Children's Legal Costs				Date of Report:	21/11/17	
Number of 'High Priority' Recommendations:	0	Current Audit Opinion:	N/A	Previous Audit Opinion:	N/A	Overall Evaluation (Risk):	N/A
<u>Key Recommendations</u> <p>Internal Audit were asked to carry out a review on the approach to the management of legal costs incurred by Children's Services for legal costs as historically the budget had been overspend and there were increased budget pressures to an increase in cases.</p> <p>The Auditor concluded that the budget for Children's legal costs has never been sufficient to meet demand and has always been significantly overspent. Work was needed to agree a realistic budget allocation for 2017/18 and to identify the implications for any additional funds that are needed.</p> <p>Alongside this, action needed to be taken to better understand the legal costs associated with care proceedings and to secure value for money through appropriate procurement exercises.</p> <p>The Auditor made a number of recommendations, which were agreed by the Head of Children, Families and Community Health and the Head of Litigation and Personal, to ensure the two departments work more closely together to allow Children's Services to manage their budget more effectively.</p>							

Audit Title:	Steam Museum					Date of Report:		January 2018	
Number of 'High Priority' Recommendations:	10	Current Audit Opinion:	3	Previous Audit Opinion:	-	Overall Evaluation (Risk):	Moderate		

Key Recommendations

The key recommendations made as a result of the review are:

- An annual business plan should be produced for STEAM with relevant business performance measures and outcomes linked to specific projects required to deliver outcomes put in place to monitor and manage service delivery.
- Until the service restructure of STEAM can go ahead reevaluate the capacity and capability of the three managers at STEAM to establish if work on progressing strategic aims and objectives, intended for the service business plan, can be taken forward.
- Work produced to date to look at alternative governance models for STEAM with the South West Museum Development Programme should be used to contribute and support the achievement of departmental objectives.
- As part of the option appraisal for the future of STEAM, evaluate the benefits of becoming a charity to attract new income opportunities including grants, sponsorship and business rates discounts
- Conduct a review of the STEAM museum building lease for Firefly Avenue and NRM loan agreements to identify if there are any limitations of use that could impact or restrict options to be taken forward as part of the STEAM options appraisal:
- The structure and agenda for management meetings should be reviewed to ensure that both the strategic and operational levels of business activity are covered.
- Review the relevance of the existing key performance indicators and targets to ensure they are key measures of success and underpin achievement of business plan objectives.
- A new key performance indicator/outcome should be introduced to monitor and manage achievement of 100% cataloguing of all artefacts at STEAM with a split of the KPI's/outcomes to reflect items on loan from the National Railway Museum and those owned by STEAM.
- The STEAM annual revenue budget should be aligned to the new annual business plan for the service so that financial performance and service outcomes can be effectively monitored and managed.
- In compliance with the Council's Contract Standing Orders undertake a tender process for the café catering provision at STEAM.

Key Audits Completed (Audits) - Draft - Total 36

	April	May	June	July	August	September	October	November	December	January	February	March
Key Audits Completed												
	Library evaluation	Corporate Reporting	Asset management-valuation	Compliance with Standing orders	New Eastern Villages	Main accounting I	Debtors	Treasury Management	Commercialisation	Main Accounting II		
		Risk management	Annual Governance Statement		Housing Benefits	Corporate manslaughter				GDPR		
		Performance Framework			Building - Statutory Compliance					Adult Safeguarding		
Key audits Month Total	1	3	2	1	3	2	1	1	1	3	0	0
Key audits Cumulative Total	1	4	6	7	10	12	13	14	15	18	18	18
Key audits Target %	5	8	12	20	25	30	50	60	70	80	90	100
Key audits Achieved %	3%	11%	17%	19%	28%	33%	36%	39%	42%	50%	50%	50%

Total other Audits Completed - Draft (54)

	April	May	June	July	August	September	October	November	December	January	February	March
Other Audits Issued												
	Workplace Health	Improvement Grants	Security: Civic Campus	Management of Capital projects	Homelessness	NNDR 3 claim	Care Leavers	HB Cheques	Troubled Families (12/17)	Debtors Recovery		
	Public Health Grant	Plas Pencelli	Organised crime checklist	Modern Slavery and Human Trafficking	Patch Management	WB 17/18-6	Troubled Families (10/17)		HR Support: Schools	Newton Europe		
	NFI	Inv 17/18-1	Managed accounts: DHI	Carbon Reduction Commitment Grant	Children legal costs	STEAM	Nursery Funding			Whitbourne House		
		Duplicate Payments	Voluntary Sector Organisation – Supported Employment		SENRAP	Inv 17/18-1	Transport inv			Crematorium and Cemeteries		
		Section 151 & HoIA responsibilities	Inv 17/18-2		W/B 17/18-1	PPS Waste Service	Inv 17/18-7			Premises Management		
					Parking Enforcement	Starters & leavers asset management	Capital Projects: financial contingency			Lawn Primary School		
					Inv 17/18-3	WB 15/16-3	OSC: Use of Social Media			Staff Training		
							Bus Subsidy Grant					
Other audits total for month	3	5	5	3	7	7	8	1	2	7	0	0
Cumulative other audits	3	8	13	16	23	30	38	39	41	48	48	48

	April	May	June	July	August	September	October	November	December	January	February	March
Overall Month Total Audits	4	8	7	4	10	9	9	2	3	10	0	0
Overall Total Audits	4	12	19	23	33	42	51	53	56	66	66	66
Target Completion of Plan %	8	16	24	32	40	48	56	64	72	78	85	92
Audit Plan Achievement %	4%	13%	21%	26%	37%	47%	57%	59%	62%	73%	73%	73%

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank