**AUDIT COMMITTEE**

This meeting will be recorded and the sound recording subsequently made available via the Council's website: charnwood.gov.uk/pages/committees

Please also note that under the Openness of Local Government Bodies Regulations 2014 that other people may film, record, tweet or blog from this meeting. The use of any images or sound recordings is not under the Council's control.

To: Committee Members Angell (Chair), Grimley (Vice-Chair), Hadji-Nikolaou, Huddlestone, Parsons, Parton and Smith (For attention)

All other members of the Council
(For information)

You are requested to attend the meeting of the Audit Committee to be held in Committee Room 2 - Council Offices on Tuesday, 26th February 2019 at 6.00 pm for the following business.

Chief Executive

Southfields
Loughborough

18th February 2019

**AGENDA**

1. APOLOGIES

2. MINUTES FROM THE PREVIOUS MEETING — 3 - 9

   The Committee is asked to confirm as a correct record the minutes of the meeting of the Committee held on 27th November 2018.

3. DISCLOSURES OF PECUNIARY AND PERSONAL INTEREST

4. QUESTIONS UNDER OTHER COMMITTEE PROCEDURES 12.8

No questions were submitted.

# AUDIT COMMITTEE
# 27TH NOVEMBER 2018

PRESENT: The Chair (Bev Angell)
The Vice Chair (Councillor Grimley)
Councillors Hadji-Nikolaou, Huddlestone, Parsons and Smith

Jon Machej (External Auditor)

Head of Strategic Support
Head of Finance and Property Services
Audit and Risk Manager
Democratic Services Manager

APOLOGIES: Councillor Parton

The Chair stated that the meeting would be recorded and the sound recording subsequently made available via the Council's website. He also advised that, under the Openness of Local Government Bodies Regulations 2014, other people may film, record, tweet or blog from this meeting, and the use of any such images or sound recordings was not under the Council's control.

31. MINUTES FROM THE PREVIOUS MEETING

The minutes of the meeting of the Committee held on 4th September 2018 were confirmed as a correct record and signed.

32. DISCLOSURES OF PECUNIARY AND PERSONAL INTEREST

No disclosures were made.

33. QUESTIONS UNDER OTHER COMMITTEE PROCEDURES 12.8

No questions had been submitted.

34. EXTERNAL AUDITOR INTRODUCTION

A verbal introduction was given by Jon Machej from Mazars, the Council's new External Auditors. It was explained that he was the Audit Manager appointed to manage the audit at Charnwood Borough Council and that he was currently in the process of setting up a team of auditors who would be carrying out the audit at the Council. He also explained that he would be starting work on the Audit Plan and that he anticipated that it would be available January/February 2019.

**RESOLVED** that the introduction be noted.

Reason

To acknowledge the introduction given by the Council's new External Auditors.

35. TREASURY MANAGEMENT UPDATE - MID-YEAR REVIEW FOR THE 6 MONTHS ENDED 30TH SEPTEMBER 2018

A report of the Head of Finance and Property Services was submitted reviewing the Treasury Management Strategy and the Annual Investment Strategy, plus the various Prudential Borrowing and Treasury Indicators for the first 6 months of 2018/19 (item 6 on the agenda filed with these minutes).

The Head of Finance and Property Services assisted with consideration of the report.

In considering this item, the Committee noted that the General Fund Capital expenditure to date (as at period 7) was £0.940M on a programme of £5.213M, and the HRA capital expenditure to date (as at period 7) was £0.681M on a programme of £7.566M. Reference was also made to the previous year's spend at the equivalent stage of £1.769 million on a General Fund programme of £4,909M and HRA spend of £1.132M on a programme of £7.512M. The Committee noted that spending was significantly lower than the comparable period last year, and as such wished to seek reassurance from the relevant Cabinet Lead Members that the level of expenditure would be much closer to the budget at year end. Furthermore the Committee requested that this matter be added to the work programme for the meeting scheduled for 26th February 2019 to review the situation again.

The Committee also sought clarification about the publication date of the Annual Audit letter from the outgoing 2017/18 auditors, and whether they would be attending the meeting scheduled for 26th February 2019.

**RESOLVED**

1. that a report be submitted to the Cabinet highlighting the Committees concerns over the level of Capital Programme underspend, and seeking assurances that the programme would be significantly delivered before the end of the financial year.
2. that the mid-year review of the Treasury Management Strategy Statement, Prudential Borrowing and Treasury Indicators plus the Annual Investment Strategy, as shown in Part B, be noted.
3. That an update on the Capital Expenditure on the HRA and General Fund be added to the work programme for February 2019.
4. that the publication date for the Annual Audit letter be confirmed to Committee Members.

Reasons

1. & 3. The Committee had concerns about the level of capital programme expenditure against the budget expected at year end, and wished to refer the matter to the Cabinet and re-visit the matter at the meeting scheduled for 26th February 2019.
2. To confirm that the Committee had considered and noted the report.
4. To provide the Committee with the further information requested.

36. INTERNAL AUDIT PLAN - PROGRESS REPORT

A report of the Head of Strategic Support was considered summarising the status of the 2017/18 and 2018/19 Audit Plans and outlining the key findings from final audit reports and follow-up work completed since the previous progress report considered by the Committee at its meeting on 4th September 2018 (item 7 on the agenda filed with these minutes).

A report of the Head of Strategic Support was considered summarising the status of the 2017/18 and 2018/19 Audit Plans and outlining the key findings from final audit reports and follow-up work completed since the previous progress report considered by the Committee at its meeting on 4th September 2018 (item 7 on the agenda filed with these minutes).

The Audit and Risk Manager assisted with consideration of the report. She pointed out that the level of assurance in connection with the Grants in the Community audit should be coloured orange (i.e. moderate) and not green (i.e. substantial) as presented in Appendix B to the report.

In considering this item there was a discussion about the Audit Plan and the lack of responsiveness of officers during the planned audits. The Audit and Risk Manager explained that there is some slippage with the Audit Plan that had been partly caused by services not being prepared for audit, despite the timing and scope being agreed with them prior to commencement of the audit, and them not providing required information timely during the audit. However, the slippage was also due to the amount of previous year audit work carried over into the current year being greater than planned for and also a prolonged period of sickness within the Internal Audit Team It was suggested that an action e.mail be sent following the meeting to all of the Corporate Management Team (CMT) setting out the Audit Committees expectation that officers comply with scheduled audits, unless there were exceptional circumstances.

The report included an exempt appendix as defined in paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972, circulated to members. The appendix set out information which, if released to the public domain, may compromise the business affairs of the Council, therefore the public interest in maintaining the exemption outweighed the public interest in disclosing the information. On that basis, the Board resolved to exclude the public from this meeting during its brief discussion on the exempt appendix. That part of the meeting was not sound recorded.

**RESOLVED**

1. that the report be noted.
2. that an action e.mail be sent to all of the Corporate Management Team (CMT) setting out the Committees expectation that officers comply with scheduled audits, unless there were exceptional circumstances.

<ins>Reason</ins>

1. To ensure that the Committee is kept informed of progress against the approved Internal Audit Plan.

2. To emphasise that planned audits are vitally important and deferring has an impact on the overall Audit Plan.

37. RISK MANAGEMENT (RISK REGISTER) UPDATE

A report of the Head of Strategic Support was submitted providing details of the interim Strategic Risk Register produced for 2018/19 and an update on progress with the review of the Risk Management Framework (item 8 in the agenda filed with these minutes).

The Audit and Risk Manager assisted with consideration of the report.

**RESOLVED** that the report be noted.

Reason

To ensure the Committee is kept informed of progress against the strategic risks that, should they crystallise, would cause the Council to be unable to operate and/or provide key services leading to a significant adverse effect on public wellbeing.

38. COUNCIL'S USE OF REGULATION OF INVESTIGATORY POWERS ACT (RIPA)

A report of the Head of Strategic Support was submitted providing a summary of the Council's use of RIPA powers (item 9 on the agenda filed with these minutes).

The Head of Strategic Support assisted with consideration of the report.

**RESOLVED** that it be noted that there had been no use of RIPA powers by the Council for the period from 1st August to 31st October 2018.

Reason

To enable the Committee to comply with the request from Cabinet that the Audit Committee assumes responsibility for receiving a quarterly report on the use of RIPA, and to report to Cabinet any concerns arising from those reports that may indicate that the use of RIPA is not consistent with the Policy or that the Policy may not be fit for purpose.

39. WORK PROGRAMME

A report of the Head of Strategic Support was submitted to enable the Committee to consider its work programme (item 10 on the agenda filed with these minutes).

The Head of Strategic Support assisted with consideration of the report.

**RESOLVED** that the Committee proceeds on the basis of the following work programme, which incorporates all decisions made at this meeting:

| ISSUE | MEETING |
|---|---|
| **Internal Audit Business** | Ongoing |
| Internal Audit Plan – Progress | 26th February 2019<br><br>Quarterly |
| Risk Management<br>(Risk Register) | 26th February 2019<br><br>Quarterly - detailed report every six months, exception report quarters in-between. |
| Council's Use of Regulation of Investigatory Powers Act (RIPA) | 26th February 2019<br><br>Quarterly |
| | |
| 2018/19 Treasury Management Statement, Annual Investment Strategy and MRP Strategy | 26th February 2019<br><br>Annually |
| 2019/20 Internal Audit Plan | 26th February 2019<br><br>Annually |
| Annual IT Health Check (Code of Connection)<br>***Confidential Report*** | 11th June 2019<br><br>Annually |
| 2018/19 Annual Internal Audit Report | 11th June 2019<br><br>Annually |
| 2018/19 Review of the effectiveness of Internal Audit (Feedback from Panel) | 11th June 2019<br><br>Annually |
| Internal Audit Charter | 11th June 2019<br><br>Annually (for approval) |
| 2018/19 Members' Allowances Claimed | 11th June 2019<br><br>Annually |
| Whistle Blowing and Anti-fraud, Corruption and Bribery | 11th June 2019<br><br>Annually |
| Environmental Audits – Report on Outcomes | 11th June 2019<br><br>Annually<br><br>*Note: Six month exception report where identified actions are not implemented by the target date.* |

| | |
|---|---|
| 2018/19 Treasury Management Outturn | 11th June 2019<br><br>Annually |
| 2018/19 Statement of Accounts | July 2019<br>(Accounts Meeting)<br><br>Annually |
| 2018/19 Annual Governance Statement and Review of the Code of Corporate Governance | July 2019<br>(Accounts Meeting)<br><br>Annually |
| Treasury Management Mid-Year Review | November 2019<br><br>Annually |
| Future of Local Public Audit | Report on Government proposals considered 5th July 2011.<br>Further report once final regulations/guidelines are known.<br>Note:<br>Appointing Your External Auditor briefing note considered June 2016. |
| Policy for Engagement of External Auditors for non-audit work | Considered March 2013.<br><br>Review policy - date to be agreed |
| **External Audit Business** | Ongoing |
| External Audit Progress Report and Technical Update | 26th February 2019<br><br>Quarterly |
| 2017/18 Annual Audit Letter | 26th February 2019<br><br>Annually |
| Certification of Claims and Returns (2018/19 Audit) | 26th February 2019<br><br>Annually |
| 2019/20 External Audit Plan | 26th February 2019<br><br>Annually |
| Capital Expenditure on HRA and General Fund | 26th February 2019 |
| 2018/19 Annual Governance Report | July 2019<br>(Accounts Meeting)<br><br>Annually |

NOTES:

1. No reference may be made to these minutes at the Council meeting on 21st January 2019 unless notice to that effect is given to the Democratic Services Manager by five members of the Council by noon on the fifth working day following publication of these minutes.

2. These minutes are subject to confirmation as a correct record at the next meeting of the Audit Committee.

# Audit Strategy Memorandum

## Charnwood Borough Council

### Year ending 31 March 2019

MAZARS

# CONTENTS

Mazars LLP
Park View House
58 The Ropewalk
Nottingham
NG1 5DW

Audit Committee Members
Charnwood Borough Council
Southfield Road
Loughborough
LE11 2TX

01 February 2019

Dear Sirs / Madams

**Audit Strategy Memorandum – Year ending 31 March 2019**

We are pleased to present our Audit Strategy Memorandum for Charnwood Borough Council for the year ending 31 March 2019

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 7 of this document also summarises our considerations and conclusions on our independence as auditors.

We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Charnwood Borough Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 07875 974 291.

Yours faithfully

**Mark Surridge**
Mazars LLP

# 1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

**Overview of engagement**

We are appointed to perform the external audit of Charnwood Borough Council (the Council) for the year to 31 March 2019. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/.

**Our responsibilities**

Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below:

**Audit opinion**

We are responsible for forming and expressing an opinion on the financial statements.

Our audit is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of the Council for the year.

**Reporting to the NAO**

Where above the appropriate thresholds set by the NAO we report on the consistency of the Council's financial statements with its Whole of Government Accounts (WGA) submission. We expect the Council to fall below these reportable thresholds for the year to 31 March 2019.

**Value for Money**

We are required to conclude whether the Council has proper arrangements in place to secure economy, efficiency and effectiveness in it its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.

**Electors' rights**

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Our audit does not relieve management or those charged with governance, of their responsibilities. The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made.

For the purpose of our audit, we have identified the Audit Committee as those charged with governance.

# 2. YOUR AUDIT ENGAGEMENT TEAM

**Mark Surridge**
**Director and Engagement Lead**


E-Mail: mark.surridge@mazars.co.uk
Tel: 07875 974 291


**Jon Machej**
**Manager**


E-Mail: jon.machej@mazars.co.uk
Tel: 0115 964 4782

# 3. AUDIT SCOPE, APPROACH AND TIMELINE

**Audit scope**

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those affected by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

**Audit approach**

Our audit approach is a risk-based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

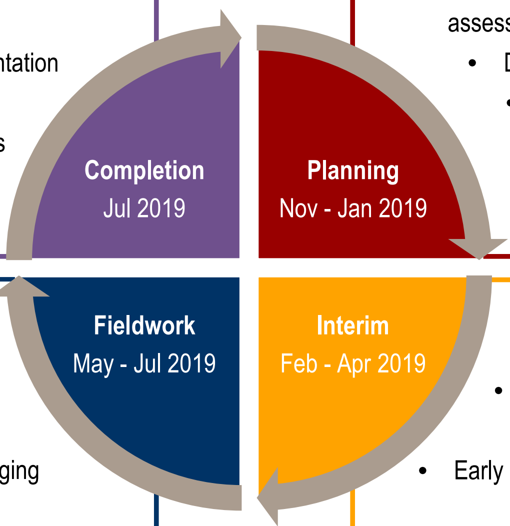
If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram below outlines the procedures we perform at the different stages of the audit.

- Final review and disclosure checklist of financial statements
- Final partner review
- Agreeing content of letter of representation
- Reporting to Audit Committee
- Reviewing post balance sheet events
- Signing our opinion

- Updating our understanding of the Council
  - Initial opinion and value for money risk assessments
    - Development of our audit strategy
      - Agreement of timetables
        - Preliminary analytical procedures




- Review of draft financial statements
- Reassessment of audit strategy, revising as necessary
- Delivering our planned audit testing
- Continuous communication on emerging issues
- Clearance meeting

- Documenting systems and controls
- Walkthrough procedures
- Controls testing, including general and application IT controls
- Early substantive testing of transactions

# 3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

**Reliance on internal audit**

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

**Management's and our experts**

Management makes use of experts in specific areas when preparing the Council's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

| Items of account | Management's expert | Our expert |
|---|---|---|
| Defined benefit liability | Hymans Robertson<br>*Actuary for Leicestershire Pension Fund* | PWC<br>*Consulting actuary appointed by the NAO* |
| Property, plant and equipment valuation | Wilks, Head and Eve<br>*External valuation specialist* | Gerald Eve<br>*Valuations expert appointed by the NAO* |
| Financial instrument disclosures | Link Asset Services<br>*Treasury management advisors* | Not applicable |

**Service organisations**

International Auditing Standards (UK) define service organisations as third party organisations that provide services to the Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the Council and our planned audit approach.

| Items of account | Service organisation | Audit approach |
|---|---|---|
| Pension cost (cost of services)<br>Net interest on defined benefit liability<br>Re-measurements of the net defined benefit liability (OCI)<br>Net pension liability | Leicestershire Pension Fund<br>*The IAS 19 pension entries that form part of the Council's financial statements are material and are derived from actuarial valuations. The process of obtaining these is co-ordinated by and uses information held and processed by the service organisation.* | We will review the controls operating at the Council over these transactions to gain an understanding of the services provided by the service organisation.<br><br>Where we conclude that we do not have a sufficient understanding of the services provided by the service organisation we will seek to obtain assurance by using another auditor to perform procedures that will provide the necessary information about the relevant controls at the service organisation. |

# 4. AUDIT RISKS AND KEY JUDGEMENT AREAS

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

**Significant risk** A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.

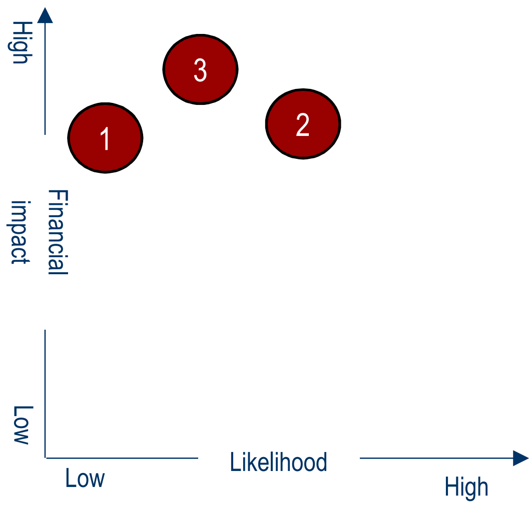
**Enhanced risk** An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

**Standard risk** This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

The summary risk assessment, illustrated in the tables below, highlight those risks which we deem to be significant or enhanced. We have summarised our audit response to these risks over the next pages.

At the time of writing this memorandum we are yet to complete our detailed risk assessment work over the Council's key financial systems and general IT controls. We aim to complete this work as part of our interim visit in January and will update the Audit Committee where we subsequently identify any additional risks.




| Risk | |
|---|---|
| **1** | Management override of control |
| **2** | Property, plant and equipment valuation |
| **3** | Defined benefit liability valuation |

# 4. AUDIT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit Committee.

**Significant risks**

| | Description of risk | Planned response |
|---|---|---|
| 1 | **Management override of controls**<br><br>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits. | In relation to the management override of controls we will:<br><br>• Document our understanding of the processes and controls in place to mitigate the risks identified, and walk through those processes and controls to confirm our understanding;<br><br>• Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;<br><br>• Review the calculation of management's material accruals, estimates and provisions for evidence of management bias;<br><br>• Evaluate the business rationale for any significant unusual transactions;<br><br>• Understand the oversight given by those charged with governance of management process over fraud;<br><br>• Sample test accruals and provisions based on established testing thresholds; and<br><br>• Review material aspects of capital expenditure on property plant and equipment to ensure it meets the relevant accounting requirements to be capitalised. |

# 4. AUDIT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

**Significant risks (continued)**

| | Description of risk | Planned response |
|---|---|---|
| 2 | **Valuation of property, plant and equipment, investment properties and assets held for sale**<br><br>The Council's accounts contain material balances and disclosures relating to its holding of property, plant and equipment, investment properties and assets held for sale, with the majority of land and building assets required to be carried at valuation. Due to high degree of estimation uncertainty associated with those held at valuation, we have determined there is a significant risk in this area. | In relation to the valuation of property, plant & equipment, investment properties and assets held for sale we will:<br><br>• Critically assess the Council's valuers scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations;<br><br>• Consider whether the overall revaluation methodology used by the Council's valuer is in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies;<br><br>• Assess whether valuation movements are in line with market expectations by using our own valuation expert to provide information on regional valuation trends;<br><br>• Critically assess the treatment of the upward and downward revaluations in the Council's financial statements with regards to the requirements of the CIPFA Code of Practice;<br><br>• Critically assess the approach that the Council adopts to ensure that assets not subject to revaluation in 2018/19 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuer; and<br><br>• Test a sample of items of capital expenditure in 2018/19 to confirm that the additions are appropriately valued in the financial statements. |

# 4. AUDIT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

**Significant risks (continued)**

| | Description of risk | Planned response |
|---|---|---|
| 3 | **Valuation of net defined benefit liability**<br><br>The Council's accounts contain material liabilities relating to the local government pension scheme. The Council uses an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk in this area. | In relation to the valuation of the Council's defined benefit pension liability we will:<br><br>• Critically assess the competency, objectivity and independence of the Leicestershire Pension Fund's Actuary, Hymans Robertson;<br><br>• Liaise with the auditors of the Leicestershire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This will include the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate;<br><br>• Test payroll transactions at the Council to provide assurance over the pension contributions which are deducted and paid to the Pension Fund by the Council;<br><br>• Review the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information provided by PWC, the consulting actuary engaged by the National Audit Office; and<br><br>• Agree the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements. |

# 4. AUDIT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

**Consideration of other mandatory risks**

Auditing standards require us to consider two standard risks for all organisations:

- Management override of controls; and
- Fraudulent revenue recognition.

We have already considered and identified management override of controls as a significant risk above. We set out our considerations in respect of fraudulent revenue recognition in the table below:

| | Description of risk | Planned response |
|---|---|---|
| 1 | **Fraudulent revenue recognition**<br><br>Our audit methodology incorporates this risk as a significant risk at all audits, although based on the circumstances of each audit, it is rebuttable. | We do not consider this to be a significant risk for Charnwood Borough Council as:<br>• there is an overall low risk for local authorities, and particularly this Council;<br>• there are no particular incentives or opportunities to commit material fraudulent revenue recognition; and<br>• the level of income that does not derive from either grant or taxation sources is low relative to the Council's overall income streams, and generally represents a number of low value, high volume transactions.<br><br>We therefore rebut this risk and do not incorporate specific risk procedures over and above our standard fraud procedures to address the management override of controls risk. |

# 4. AUDIT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

**Enhanced risks and key areas of management judgement**

Enhanced risks and key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. These areas of management judgement represent other areas of audit emphasis.

| | Area of management judgement | Planned response |
|---|---|---|
| 1 | **Debt impairment**<br><br>Uncertainty exists that, in the current economic climate, the Council's provision for the impairment of doubtful debts would be sufficient. | We plan to address this judgement by:<br><br>• Reviewing the level of reported debt as at the 31 March and considering the implications for any material change;<br><br>• Ensuring that managements methodology for calculating the provision has been consistently applied and is in line with the requirements of the Code;<br><br>• Testing the collectability of both significant and a sample of other non-significant debtor balances; and<br><br>• Re-performing the basis of the calculation for the impairment of debtors. |
| 2 | **Provision for business rate appeals against the rating list**<br><br>The issue of a new rating list and a change in the appeals process has created delays in appeals being notified to the Council. Consequently management need to make an assumption over the likely level of appeals that will be successful based on their rating knowledge. | We plan to address this judgement by:<br><br>• Reviewing the basis of the Council's calculation of its provision by recalculating the provision, evaluating the key assumptions of the provision, vouching movements in the provision and confirming completeness of entries;<br><br>• Assessing whether the provision has been calculated and recorded in accordance with the Council's accounting policy;<br><br>• Assessing whether the amount provided at the period end is appropriate, taking into account the Council's anticipated actual liability; and<br><br>• Assessing whether the reconciliation of movements during the period and description of the nature of the provision have been adequately disclosed in the financial statements. |

# 5. VALUE FOR MONEY

**Our approach to Value for Money**

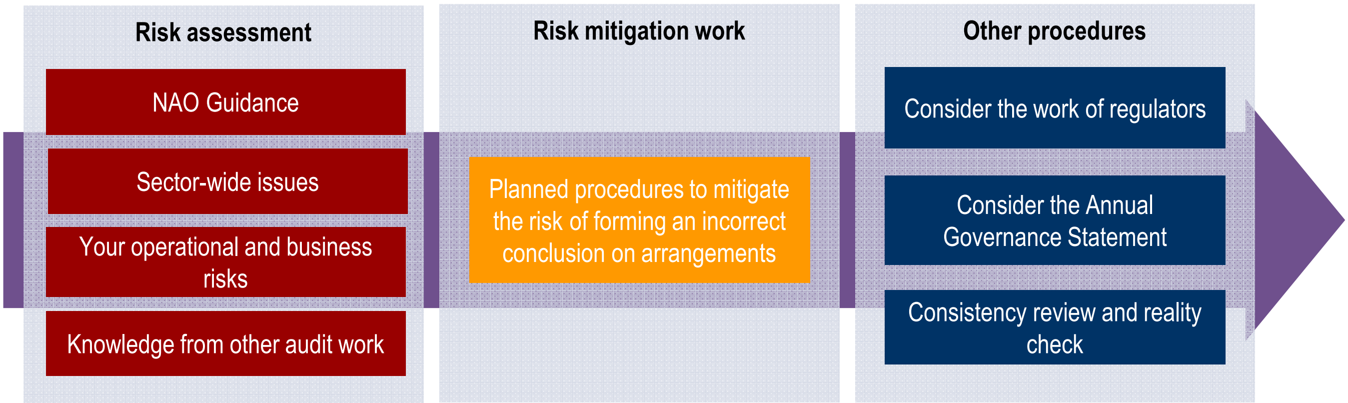
We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the overall criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.'

To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

A summary of the work we undertake to reach our conclusion is provided below:




**Significant risks**

The NAO's guidance requires us to carry out work at the planning stage to identify whether or not a Value for Money (VFM) exists. Risk, in the context of our VFM work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. As outlined above, we draw on our deep understanding of the Council and its partners, the local and national economy and wider knowledge of the public sector.

For the 2018/19 financial year, we have not identified any significant risks to our VFM conclusion. We will continually assess whether any matters come to our attention through the course of our audit that lead us to conclude that a risk to our VFM conclusion does exist and where any such risk is identified, these will be reported to the Audit Committee as part of our Audit Completion Report.

# 6. FEES FOR AUDIT AND OTHER SERVICES

**Fees for work as the Council's appointed auditor**

At this stage of the audit we are not planning any divergence from the scale fees set by PSAA as communicated in our fee letter of 25 April 2018.

| Service | 2017/18 fee | 2018/19 fee |
|---|---|---|
| Code audit work | £54,968 | £42,325 |

**Fees for non-PSAA work**

In addition to the fees outlined above in relation to our appointment by PSAA, we have been separately engaged by the Council to carry out additional work as set out in the table below. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

| Service | 2017/18 fee | 2018/19 fee |
|---|---|---|
| Housing Benefits Subsidy Assurance | £11,981 | £9,850 |

# 7. OUR COMMITMENT TO INDEPENDENCE

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually, in writing, that we comply with the Financial Reporting Council's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethics training;
- rotation policies covering audit engagement partners and other key members of the audit team;
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Mark Surridge in the first instance.

Prior to the provision of any non-audit services Mark Surridge will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

As we have not been engaged to carry out any non-audit work to date, no threats to our independence have been identified. Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

# 8. MATERIALITY AND MISSTATEMENTS

**Summary of initial materiality thresholds**

| Threshold | Materiality |
|---|---|
| Overall materiality | £1,696,000 |
| Performance materiality | £1,187,000 |
| Trivial threshold for errors to be reported to the Audit Committee | £51,000 |

**Materiality**

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of the 2017/18 total gross expenditure. We have calculated a headline figure for materiality but have also identified separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Audit Committee.

We consider that total gross expenditure remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We have set our materiality threshold at 2% of the benchmark based on the 2017/18 audited financial statements.

# 8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

Based on the 2017/18 audited financial statements we anticipate the overall materiality for the year ending 31 March 2019 to be £1,696,000 for the audit of the Council's financial statements.

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

**Performance Materiality**

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. In setting performance materiality we have taken into account that this is our first year of audit and accordingly we do not hold extensive cumulative audit knowledge about the Council's financial statements. We have therefore set our performance materiality at 70% of our overall materiality being £1,187,000 for the Council's financial statements.

As with overall materiality, we will remain aware of the need to change this performance materiality level through the audit to ensure it remains to be set at an appropriate level.

**Specific items of lower materiality**

We have also calculated materiality for specific classes of transactions, balances or disclosures where we determine that misstatements of a lesser amount than materiality for the financial statements as a whole, could reasonably be expected to influence the decisions of users taken on the basis of the financial statements. We have set specific materiality for the following items of account:

| Item of account | Basis | Specific materiality |
|---|---|---|
| Note 27 – Members' allowances and expenses* | 25% of total | £89,000 |
| Note 28 – Senior Officers' remuneration* | 25% of total | £113,000 |
| Note 28 – Officers' remuneration (bandings table)** | Bandings (£5,000) | £5,000 |
| Note 30 – External audit costs* | 25% of total | £18,000 |

* Based on prior year amounts and accounts reference

** Reflecting movement from one salary band to another

**Misstatements**

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £51,000 for the Council's financial statements based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Mark Surridge.

**Reporting to the Audit Committee**

To comply with International Standards on Auditing (UK), the following three types of audit differences will be presented to the Audit Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).

# APPENDIX A – KEY COMMUNICATION POINTS

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

| Required communication | Audit Strategy Memorandum | Audit Completion Report |
|---|---|---|
| Our responsibilities in relation to the audit of the financial statements and our wider responsibilities | ✓ | |
| Planned scope and timing of the audit | ✓ | |
| Significant audit risks and areas of management judgement | ✓ | |
| Our commitment to independence | ✓ | ✓ |
| Responsibilities for preventing and detecting errors | ✓ | |
| Materiality and misstatements | ✓ | ✓ |
| Fees for audit and other services | ✓ | |
| Significant deficiencies in internal control | | ✓ |
| Significant findings from the audit | | ✓ |
| Significant matters discussed with management | | ✓ |
| Our conclusions on the significant audit risks and areas of management judgement | | ✓ |
| Summary of misstatements | | ✓ |
| Management representation letter | | ✓ |
| Our proposed draft audit report | | ✓ |

# APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

**Changes relevant to 2018/19**

IFRS 9 Financial Instruments - the standard replaces IAS 39 and introduces significant changes to the recognition and measurement of the Council's financial instruments, particularly its financial assets.

Although the accounting changes may be complex and may require the reclassification of some instruments, it is likely that the Council will continue to measure the majority of its financial assets at amortised cost. However, we are aware that consideration will need to be given to the Council's holdings in property funds which may need to be reclassified from their current available for sale category.

For Councils that hold instruments that will be required to be measured at fair value under the new standard, there may be instances where changes in these fair values are recognised immediately and impact on the general fund. We are aware that, following the Ministry of Housing, Communities and Local Government consultations, a statutory override, will be put in place to mitigate the impact of these fair value movements on the Council's general fund balance.

IFRS 15 Revenue from Contracts with Customers - the 2018/19 Code also applies the requirements of IFRS 15, but it is unlikely that this will have significant implications for most local authorities.

There are no other significant changes to the Code of Practice on Local Authority Accounting (the Code) for 2018/19.

**Changes in future years**

| Accounting standard | Year of application | Implications |
|---|---|---|
| IFRS 16 – Leases | 2020/21 | We anticipate that the new leasing standard will be adopted by the Code for the 2020/21 financial year.<br><br>IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes, particularly for lessees. The requirements for lessors will be largely unchanged from the position in IAS 17.<br><br>Lessees will need to recognise assets and liabilities for all leases (except short-life or low-value leases) as the distinction between operating leases and finance leases is removed.<br><br>The introduction of this standard is likely to lead to significant work being required in order to identify all leases to which the Council are party to. |

# APPENDIX C – MAZARS' CLIENT SERVICE COMMITMENT

We are here because of our clients; serving them in the best way we can is part of our DNA. We operate a Code of Conduct which drives our client service commitment in all areas, as set out below.

AUDIT COMMITTEE 26TH FEBRUARY 2019

**Report of the Head of Finance and Property Services**
**Lead Member: Councillor Tom Barkley**

**Part A**

ITEM CAPITAL STRATEGY (INCLUDING THE TREASURY MANAGEMENT STRATEGY) FOR 2019-20

Purpose of Report

This report introduces the Capital Strategy, which is newly required under the terms of the 'Prudential Code', a statutory code of practice. The report also sets out the Treasury Management Strategy Statement together with the Annual Investment Strategy and Minimum Revenue Provision (MRP) Policy. These latter strategies and the MRP policy are integral to the overarching Capital Finance Strategy and are therefore presented within a single report for context.

This Cabinet report recommends the approval of the above strategies to Council.

Recommendations

1. That the Capital Strategy, as set out at Appendix A of this report be approved and recommended to Council.

2. That the Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy as shown at Appendix B of this report be approved and recommended to Council.

3. That the Prudential and Treasury Indicators, also set out in within Appendix B of this report be approved and recommended to Council.

Reasons

1. To enable the Council to comply with the statutory code of practice issued by CIPFA: 'The Prudential Code for Capital Finance in Local Authorities, 2017 Edition'.

2. To ensure that the Council's governance and management procedures for Treasury Management reflect best practice and comply with the CIPFA Treasury Management in the Public Services Code of Practice, Guidance Notes and Treasury Management Policy Statement.

3. To ensure that funding of capital expenditure is taken within the totality of the Council's financial position and that borrowing and investment is only carried out with proper regard to the Prudential Code for Capital Finance in Local Authorities.

Policy Justification and Previous Decisions

The Capital Strategy must be approved by Council on an annual basis. The presentation of a Capital Strategy was optional for the 2018/19 financial year but is a requirement for the 2019/20 and subsequent financial years.

The Treasury Management Strategy Statement, Prudential and Treasury Indicators and Annual Investment Strategy must be approved by Council each year and reviewed half yearly.

Implementation Timetable including Future Decisions and Scrutiny

This report is available for the consideration of the Overview Scrutiny Group on 11 February 2019.

Report Implications

The following implications have been identified for this report.

*Financial Implications*

There are no direct financial implications arising from this report.

Financial issues arising from the implementation of the strategies are covered within the report.

*Risk Management*

| *Risk Identified* | *Likelihood* | *Impact* | *Risk Management actions planned* |
|---|---|---|---|
| Poor treasury investment decisions due to inadequate treasury management strategies in place | Unlikely | Moderate | Strategy developed in accordance with CIPFA guidelines and best practice.<br>Adherence to clearly defined treasury management policies and practices |
| Loss of council funds through failure of borrowers | Remote | Severe | Credit ratings and other information sources used to minimise risk<br>Adherence to clearly defined treasury management policies and practices |
| Volatile market changes (such as interest rates or sector ratings) occur during year | Possible | Moderate | Approved strategy in place, regular monitoring of position and use of Treasury Consultants and other sources to provide the latest advice. |

| *Risk Identified* | *Likelihood* | *Impact* | *Risk Management actions planned* |
|---|---|---|---|
| Significant losses arising from investments in non-financial instruments (such as loans to third parties or property investments) | Possible | Major | Professional advice will be sought in advance of non-standard or new investment activity.<br><br>Adherence to strategy which set out limits to investment in individual asset classes. |

Key Decision: Yes

Background Papers: Cabinet Report 13th September 2018 – Updated Treasury Management Practices

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## Part B

<u>Background</u>

1. The Capital Strategy is a new requirement arising from the extant version of the 'Prudential Code'. This code is a statutory code of practice and was published by the Chartered Institute of Public Financial Accountants (CIPFA) in November 2017. It was issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003. Under that section local authorities are required to 'have regard' to 'such guidance as the Secretary of State may issue'.

2. The Council's treasury management activities also fall within the scope of the Prudential Code.

3. The Capital Strategy forms part of the Council's integrated revenue, capital and balance sheet planning. It sets out the long-term context in which capital expenditure and investment decisions are made, considers risks and rewards and the potential impacts on Council objectives

4. The Capital Strategy is an overarching strategy that encompasses the following aspects:

    - Capital expenditure and governance
    - Capital financing and the borrowing
    - Treasury management investments (essentially financial assets)
    - Commercial strategy – non-financial assets (including commercial properties and prospective housing development)
    - Access to knowledge and skills (enabling the strategy to be delivered)
    - Treasury management policy statement and practices (presented as a separate appendix)

5. The most recent Medium Term Financial Strategy (approved at the Council meeting of 21st January 2019) includes a transformation and efficiency plan that sets out a range of responses to the likely future financial challenges facing the Council. These included a more proactive approach to treasury management, prospective investments in commercial property and development of commercial opportunities. Additionally, a report to Cabinet of 14th January 2019 outlined the Council's aspirations to deliver affordable housing through the mechanism of a Housing Development Company. In order to enable these initiatives new flexibilities in the Council's treasury management and borrowing policies are required.

6. The principal expanded flexibilities are that the Council would be able to make commercial investments, e.g. to provide loans to the Housing Development Company, which would generate investment income for the General Fund. The other main change is that an Minimum Revenue Provision Policy has been included in the Treasury Management Strategy and will require full Council approval

7. Advice has been obtained from the Council's treasury management advisers in developing the above proposals.

8. In addition to those noted above, the Capital Strategy also outlines other flexibilities (and associated governance arrangements) that are likely to be required in future, principally around the prospective acquisition of commercial properties and making commercial investments. These are presented within the Strategy for illustrative purposes. It is envisaged that a further report will be presented to Cabinet in due course setting out final proposals for these flexibilities requesting that these be recommended for approval by Council.

9. As noted above and in Part A, this report also requests that the Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy together with the Prudential and Treasury Indicators, be approved and recommended to Council

10. The Treasury Management and Annual Investment Strategy have been prepared in accordance with the revised code and accordingly include:

    - the treasury limits in force which will limit the treasury risk and activities of the council,
    - the Prudential and Treasury Indicators
    - the current treasury position
    - the borrowing requirement
    - prospects for interest rates
    - the borrowing strategy
    - policy on borrowing in advance of need
    - debt rescheduling
    - the investment strategy
    - creditworthiness policy
    - the use of external fund managers and treasury advisers

- Minimum Revenue Provision (MRP) Policy

Appendices

| | |
|---|---|
| Appendix A: | Capital Finance Strategy |
| Appendix B: | Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy for 2019-20 |

# Charnwood Borough Council

# Capital Strategy

# 2019 – 2020

**Foreword**

Robust financial planning is a critical component of the Council's overall system of financial management. Although the Capital Strategy is a new requirement that arises from the updated terms of the 'Prudential Code', a statutory code of practice, much of its content reflects the pre-existing management parameters and controls already in place within the Council including, in particular, those which govern our treasury management activities.

However, in many ways the requirement to publish a Capital Strategy is very timely. In the most recent Medium Term Financial Strategy we outlined some the potential financial challenges facing the Council and set out our responses to these within the transformation and efficiency plan that formed part of this document. Our plans include a more proactive approach to treasury management, prospective investments in commercial property and the development of commercial opportunities. Additionally, we have aspirations to deliver affordable housing through the mechanism of a Housing Development Company in order to meet the ongoing demand for new homes within our Borough. Enabling these initiatives require new flexibilities in the Council's treasury management and borrowing policies which are introduced within the Capital Strategy and associated Treasury Management Strategy.

Security and liquidity will remain as key elements of the Council's approach to financial management but the anticipated challenges ahead point us towards a more proactive approach in respect of treasury management, prudent borrowing and commercial opportunities. We have already made changes (for example, our recent investments in property funds) but this inaugural Capital Finance Strategy starts to consider how we could rebalance risk and reward as we continue on this journey.

Councillor Tom Barkley

Cabinet Lead Member for Finance & Property

February 2019

## CAPITAL STRATEGY (INCLUDING TREASURY MANAGEMENT)

The purpose of the Capital Strategy is to demonstrate that the Council takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. It sets out the long term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes. The Capital Strategy comprises a number of distinct, but inter-related, elements as follows:

• **Capital expenditure**; which includes an overview of the governance process for approval and monitoring of capital expenditure, including the Council's policies on capitalisation, and an overview of its capital expenditure and financing plans.

• **Capital financing and borrowing**; provides a projection of the Council's capital financing requirement, how this will be funded and repaid. It therefore sets out the Council's borrowing strategy and explains how it will make prudent revenue provision for the repayment of debt should any borrowing be required.

• **Treasury management investments**; explains the Council's approach to treasury management investment activities, including the criteria for determining how and where funds will be invested to ensure that the principal sums are safeguarded from loss and that sufficient liquidity is maintained to ensure that funds are available when needed.

• **Commercial investments**; provides an overview of those of the Council's current and any potential commercial investment activities that count as capital expenditure, including processes, due diligence and defining the Council's risk appetite in respect of these, including proportionality in respect of overall resources.

• **Knowledge and skills**; summarises the knowledge and skills available to the Council and provides confirmation that these are commensurate with the Council's risk appetite. Further details are provided in the following sections.

• **Treasury management policy statement and practices**; this is presented as a separate report, for approval, updates to the Council's Treasury Management Policy Statement and to its Treasury Management Practices. These set out the Council's policies, objectives and approach to risk management of its treasury management activities, and the manner in which it seeks to achieve its policies and objectives for treasury management.

### 1. Capital expenditure

#### 1.1. Capitalisation policies

1.1.1. Capital expenditure involves acquiring or enhancing non-current assets with a long-term value to the Council, such as land, buildings, and major items of plant and equipment or vehicles, as well as the contribution or payments of grants to others to be used to fund capital expenditure. Capital assets shape the way services are delivered for the long term and may create financial commitments for the future in the form of financing costs and revenue running costs. Subsequent expenditure on existing assets is also classified as capital expenditure if these two criteria below are met.

1.1.2. Expenditure is classified as capital expenditure when the resulting asset:

- Will be held for use in the delivery of services, for rental to others, or for administrative purposes; and
- Is of continuing benefit to the Council for a period extending beyond one financial year.

1.1.3. There may be instances where expenditure does not meet this definition, but would nevertheless be treated as capital expenditure. This is known as ‘Capitalisation’ and it is the means by which the Government, exceptionally, permits local authorities to treat revenue costs as capital costs. It allows exceptional revenue costs, that should be met from revenue resources to be treated as capital expenditure. Permission is given through capitalisation directions, which the Secretary of State can issue under section 16(2)(b) of the Local Government Act 2003.

1.1.4. The Council operates a de-minimis limit of £10,000 for capital expenditure. This means that items below this limit are charged to revenue rather than capital.

**1.2. Governance**

1.2.1. A three year Capital Plan is prepared by officers and approved by Council. The process to formulate the Capital Plan is that, potential schemes are submitted to the SMT, each one of which is supported by a Capital Application form and scored by the relevant Head of Service. The SMT peer review the applications and then, via the Head of Finance & Property, submit a report to Cabinet covering its recommendations on which schemes to include in the Plan, how the Plan could be funded and other elements such as risk and compliance with the Prudential Code.

1.2.2. Once adopted the three year Capital Plan is formally reviewed by Cabinet at the end of year two when Heads of Service are asked to submit proposals for the following three years. ‘Year three’ of the current plan would then become ‘year one’ of the new plan.

1.2.3. New schemes can only be added outside of this procedure where they are in substitution of existing schemes or have a separate source of funding so that the actual total level of the Plan would not increase.

1.2.4. All schemes of £50,000 in value or greater require a Capital Appraisal agreed by the Capital Programme Team plus all contracts must adhere to the Contract Procedure Rules. The s151 Officer makes recommendations to Cabinet as to whether funding should be released to a scheme included in the Capital Plan.

1.2.5. After the end of the financial year a report detailing the total amount of capital expenditure incurred during the year is submitted to Cabinet by the Section 151 Officer.

1.2.6. Prior to the closure of the Council’s accounts a report detailing the proposed method of funding the capital expenditure incurred is submitted to Cabinet by the Section 151 Officer as required by the Local Government & Housing Act 1989.

Current Three Year Capital Plan

1.2.7. The Capital Plan for 2018/19 - 2020/21, is currently £31,450,800 (originally adopted by Council on 26th February 2018 with the latest amendments approved by Cabinet at its meeting on 13th December 2018). The Capital Plan is fully funded by a combination of the following sources:

1.2.8. Capital grants and contributions - amounts awarded to the Council in return for past or future compliance with certain stipulations.

1.2.9. Capital receipts – amounts generated from the sale of assets and from the repayment of capital loans, grants or other financial assistance.

1.2.10. Revenue contributions – amounts set aside from the revenue budget.

1.2.11. In addition to this the Council also has the option to borrow to fund capital expenditure. At this point in time the Council has taken any borrowing to fund General Fund capital expenditure. The Council has taken out borrowing to fund the purchase of its housing stock from the Government under the 2012 Self-Financing Regime. This totals £79m.

1.2.12. Borrowing allows the Council to defer the funding of its capital expenditure so that it does not need to fund immediately from cash resources, but instead charges to the revenue budget over a number of years into the future.

1.2.13. The implications of financing capital expenditure from 'borrowing' are explained later on in Treasury Management Investments.

## 2. Capital Financing Requirement and Borrowing Context

2.1. The Council is required by regulation to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities (referred to as the 'Prudential Code') when assessing the affordability, prudence and sustainability of its capital investment plans. Fundamental to the prudential framework is a requirement to set a series of prudential indicators. These indicators are intended to collectively build a picture that demonstrates the impact over time of the Council's capital expenditure plans upon the revenue budget and upon borrowing and investment levels, and explain the overall controls that will ensure that the activity remains affordable, prudent and sustainable.

2.2. The full details of the Council's CFR position and the limits that have been set for borrowing and all the associated prudential indicators are provided In the Treasury Management Strategy Statement (Appendix B).

## 3. Treasury Management Investments

3.1. The Treasury Management Code and statutory regulations require the Council to prepare an annual strategy that explains how the Council will invest its funds, giving priority to security and liquidity, and then to yield. This Annual Investment Strategy can be found in the Treasury Management Strategy Statement (Appendix B).

## 4. Commercial investments

4.1. The prolonged low interest rate environment has meant that treasury management investments have not generated significant returns. However, the introduction of the general power of competence has given local authorities far more flexibility in the types of activity they can engage in. These changes in the economic and regulatory landscape, combined with significant financial challenges, have led many authorities to consider different and more innovative types of investment.

4.2. CIPFA recently issued an update to its Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (the Treasury Management Code). One of the main changes introduced by the new Code is to require authorities to incorporate all of the financial and non-financial assets held for financial return in authorities' annual capital strategies.

4.3. Separately, the Ministry of Housing, Communities and Local Government has issued Statutory Guidance on Local Government Investments under section 15(1)(a) of the Local Government Act 2003 and effective for financial years commencing on or after 1 April 2018

4.4. The primary objectives of commercial investment activities for a council should be:

- Security – to protect the capital sums invested from loss; and
- Liquidity – ensuring the funds invested are available for expenditure when needed.

4.5. The generation of a yield is distinct from the two objectives above. However, once proper levels of security and liquidity are determined, it would then be reasonable to consider what yield can be obtained consistent with these priorities.

4.6. At present the non-core activities and investments are primarily undertaken by the Council in order to generate income to support the delivery of a balanced budget. Such investments are only entered following a full assessment of the risks and having secured expert external advice (i.e. where it is relevant to do so). It is intended that separate reports to present a policy on commercial investment will be brought to Cabinet and full Council for consideration and approval. This will discuss the options open to the Council along with the risks and benefits for each. It will also include proposals on limits, diversification and governance. Each policy, as approved will then be incorporated as part of this Capital Strategy and will in future years be reviewed annually as part of this strategy.

4.7. Below are details of some options open to the Council that would generate a yield for the Council. The details below are indicative of options that will be considered and are provided for information only. They are not for approval at this stage.

**Investment properties**

4.7.1. The Council already owns land and buildings that have been acquired for capital appreciation and/or solely to earn rentals, rather than for the supply of goods or services or for administrative purposes. Such assets are classified as investment properties (unless they are acquired as the outcome of a regeneration priority).

4.7.2. In considering its approach to investment properties the Council will need to consider the application of parameters including:

- Maximum and minimum cost of prospective acquisitions
- The maximum proportion of the Council's investment assets that should be held in the form of investment properties
- The balance of property assets held with different sectors of the market; for example, an approach might be agreed that excludes retail property acquisitions
- The geographical limits on prospective acquisitions; for example, acquisitions could be limited to sites within the Borough, within the area of the Local Economic Partnership, or unrestricted
- Whether properties are acquired purely on commercial grounds or whether other policy objectives, such as regeneration, should also be taken into account
- The required rental yield from properties held for investment, and whether different yield hurdle rates be applied to prospective acquisitions fulfilling non-financial policy objectives

4.7.3. As noted above in paragraph 4.6, it is envisaged that a further report would be brought to Cabinet and then Council prior to commencing commercial property investment. In addition to addressing the above parameters this would address the requirements for specific knowledge and skills, and the governance structure that would support this activity given the need to make investment decisions that do not lend themselves to the standard committee cycles.

**Loans to local enterprises and third parties**

4.7.4. Loans to local enterprises or partner public sector bodies could be considered, as part of a wider strategy for local economic growth, even though they may not all be seen as prudent if adopting a narrow definition of prioritising security and liquidity. Such loans could be considered as an option to generate a yield. There would need to be a set of criteria drawn up which would need to be met before any loan was given. These might include:

- Whether or not the loan has security
- The term of the loan
- The profile of capital repayments
- The credit rating of the counterparty

**Support to Subsidiaries**

4.7.5. The Council does not currently have any wholly owned local trading or housing companies. Should the Council decide to form a subsidiary then

Council could decide to provide the funding required to support these organisations. As with providing loans to local enterprises and third parties there would need to be a set of criteria drawn up which would need to be met before any loan was given. This would mitigate the risk of loss to the Council.

**Other commercial investments**

4.7.6. There may be other commercial investment opportunities that present themselves. If this happens then a report would be presented to Cabinet for approval and the Capital Strategy will be updated to cover their inclusion.

## 5. Knowledge and Skills

5.1. The Council recognises the importance of ensuring that all officers involved in the treasury management function (including commercial investment activities) are fully equipped to undertake the duties and responsibilities allocated to them. The Strategic Director for Corporate Services is responsible for recommending and implementing the necessary arrangements and does this by:

- Appointing individuals who are capable and experienced.
- Providing training and technical guidance to all individuals involved in the delivery of the treasury management function to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills to undertake the duties and responsibilities allocated to them.
- Appointing a treasury management advisor and other professional advisors when required. This ensures that the individuals involved in delivery of the Council's treasury management activities have access to specialist skills and resources. In addition, professional advisors are employed as required to ensure that the Council has access to the specialist skills and resources necessary to undertake commercial investment activities.

5.2. Treasury management advisors - The Council employs Link Asset Services (Treasury Solutions) to provide it with treasury management advice. The services provided by Link Asset Services (Treasury Solutions) include advice on treasury matters and capital finance issues, economic and interest rate analysis and creditworthiness information. Notwithstanding this, the final decision on all treasury matters remains vested with the Council. The services received from Link Asset Services (Treasury Solutions) are subject to regular review, including through periodic re-tendering.

## 6. Treasury management Policy Statement and Treasury Management Practices

6.1. The Council's Treasury Management Policy Statement and its Treasury Management Practices have been updated to reflect the requirements of the updated Treasury Management Code. They are presented for approval in the Treasury Management Strategy (Appendix B)

APPENDIX B

# Charnwood Borough Council

## Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

# 2019/20

**INDEX**

# 1. INTRODUCTION

## 1.1 Background

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 the cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, ensuring the provision of adequate liquidity (cash balances) initially before considering investment return.

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

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure),and are separate from the day to day treasury management activities.

CIPFA defines treasury management as:

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

Revised reporting is required for the 2019/20 reporting cycle due to revisions of the MHCLG Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy is being reported separately.

## 1.2 Reporting requirements

### Capital Strategy

The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019-20, all local authorities to prepare an additional report, a capital strategy report, which will provide the following:

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

The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The capital strategy will show:

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution;
- The debt related to the activity and the associated interest costs;
- The payback period (MRP policy);
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.

Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

Where the Council has borrowed to fund any non-financial investment, there should also be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to.

If any non-financial investment sustains a loss during in a financial year, the strategy and revenue implications will be reported through the same procedure as the capital strategy.

To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout this report.

### Treasury Management reporting

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.

**Prudential and treasury indicators and treasury strategy** (this report) - The first and most important report covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

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

**An annual treasury report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

**Scrutiny**

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit Committee and the reports are also available for consideration by the Overview Scrutiny Group.

**1.3 Treasury Management Strategy for 2019/20**

The strategy for 2019/20 covers two main areas:

**Capital issues**

- Capital plans and prudential indicators;
- Minimum revenue provision (MRP) policy.

**Treasury management issues**

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

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

**1.4 Training**

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Suitable training is provided for members on a periodic basis as part of the wider Member training programme. Officers are also available to train and advise members on an ad hoc basis outside of this programme if required. The training needs of treasury management officers are reviewed annually as part of the PDR process

### 1.5 Treasury management consultants

The Council uses Link Asset Services Treasury Solutions as its external treasury management advisors in order to acquire access to specialist skills and resources, including a benchmarking club. However, it is recognised that responsibility for treasury management decisions remains with the Council at all times and undue reliance is therefore not placed upon our external service providers.

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

The scope of investments within the Council's operations may include both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties in the future. The commercial type investments require specialist advisers, and the Council would appoint suitably qualified specialist advisers in relation to this activity when required.

## 2. THE CAPITAL PRUDENTIAL INDICATORS 2019/20 – 2021/22

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

### 2.1 Capital expenditure

The Council's capital expenditure plans are the key driver of Treasury Management activity. This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

| Capital expenditure | 2017/18 Actual £'000 | 2018/19 Estimate £'000 | 2019/20 Estimate £'000 | 2020/21 Estimate £'000 |
|---|---|---|---|---|
| **Non-HRA** | 3,275 | 4,894 | 3,587 | 2,088 |
| **HRA** | 6,465 | 7,566 | 7,554 | 5,766 |
| **Total** | 9,740 | 12,460 | 11,141 | 7,854 |

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

| Financing of capital Expenditure | 2017/18 Actual £'000 | 2018/19 Estimate £'000 | 2019/20 Estimate £'000 | 2020/21 Estimate £'000 |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| Total as per above table | 9,740 | 12,460 | 11,141 | 7,854 |
| **Financed by:** | | | | |
| Capital receipts | 141 | 1,902 | 2,179 | 1,173 |
| Capital grants | 2,275 | 2,130 | 1,590 | 1,058 |
| Capital reserves | 0 | 1,015 | 557 | 0 |
| Revenue/MRR | 6,964 | 7,413 | 6,815 | 5,623 |
| **Net financing need for the year** | **0** | **0** | **0** | **0** |

### 2.2 The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). This is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR will not increase indefinitely if expenditure is funded by borrowing, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life, and so changes the economic consumption of capital assets as they are used.

It should be noted that the Council has only taken borrowing to fund the HRA Self-financing. This means that the CFR is not forecast to increase, nor is there any reduction as there is no requirement to make a revenue provision to repay debt. This can be seen in the table below and the Council is asked to note the CFR projections in the table below.

| | **2017/18 Actual £'000** | **2018/19 Estimate £'000** | **2019/20 Estimate £'000** | **2020/21 Estimate £'000** | **2021/22 Estimate £'000** |
|---|---|---|---|---|---|
| **Capital Financing Requirement** | | | | | |
| CFR – non housing | (248) | (248) | (248) | (248) | (248) |
| CFR – housing | 81,820 | 81,820 | 81,820 | 81,820 | 81,820 |
| **Total CFR** | **81,572** | **81,572** | **81,572** | **81,572** | **81,572** |
| **Movement in CFR** | **0** | **0** | **0** | **0** | **0** |
| **Movement in CFR represented by** | | | | | |
| Net financing need for the year (above) | 0 | 0 | 0 | 0 | 0 |
| Less MRP/VRP and other financing movements | **0** | 0 | 0 | 0 | 0 |
| **Movement in CFR** | **0** | **0** | **0** | **0** | **0** |

## 2.3 Minimum revenue provision (MRP) policy statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

MHCLG 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, so long as there is a prudent provision.

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place).

MRP Overpayments - A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2019 the total VRP overpayments were £0m.

The Council currently has no capital financing requirement for the General Fund and therefore does not need to make a MRP provision. As the Council is likely to fund capital expenditure from borrowing in the near future and as there is a statutory requirement to have an approved MRP Statement in place in advance of each year, an MRP policy has been included in this Treasury Management Strategy as Appendix 12B(2). Council is asked to adopt and approve the MRP policy statement.

## 2.4 Core funds and expected investment balances

The use of resources (capital receipts, reserves etc.) to finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.).

The proposed Capital Plan, which runs through to March 2021 and is fully funded from capital receipts, reserves and revenue funding. Any new proposals for additional capital or investment expenditure will require a business plan and will be considered on their merits and the availability of funding. The funding position is regularly reviewed and any need to borrow externally will be considered. If this requires a revision of this Treasury Management Strategy in year it will be brought back to full Council for approval.

## 3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes so that sufficient cash is available to meet this service activity. This will involve both the management of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the annual investment strategy.

### 3.1 Current portfolio position

One of the key indicators is that the Council's gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and the following two financial years. This is to ensure that the Council conducts its activities within well-defined limits. Also the indicator allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The table below shows the forward projections for external debt against the underlying need to finance capital expenditure through borrowing or other long term liabilities, i.e. the CFR, highlighting any over or under borrowing.

| | 2017/18 Actual £'000 | 2018/19 Estimate £'000 | 2019/20 Estimate £'000 | 2020/21 Estimate £'000 |
|---|---|---|---|---|
| External Debt at 1 April | 81,190 | 81,190 | 81,190 | 81,190 |
| Expected change in Debt | 0 | 0 | 0 | 0 |
| **Actual debt at 31 March** | 81,190 | 81,190 | 81,190 | 81,190 |
| **Capital Financing Requirement** | 81,572 | 81,572 | 81,572 | 81,572 |
| **Under/(over) borrowing** | 382 | 382 | 382 | 382 |

The table shows that the Council has complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the 2019/20 budget report. Within the above figures there is no debt that relates to commercial activities/non-financial investment.

Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

### 3.2 Treasury Indicators: limits to borrowing activity

**The operational boundary.**
This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

| Operational boundary | 2018/19 Estimate £'000 | 2019/20 Estimate £'000 | 2020/21 Estimate £'000 | 2021/22 Estimate £'000 |
|---|---|---|---|---|
| Debt | 81,190 | 81,190 | 81,190 | 81,190 |
| Commercial Activities/Non-financial investments | 0 | 0 | 0 | 0 |
| Other long term liabilities | 0 | 0 | 0 | 0 |
| **Total** | **81,190** | **81,190** | **81,190** | **81,190** |

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

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

It should be noted that the authorised limit (as shown in the table below) has been set based on the current capital expenditure and funding plans. If the Council decides to take forward any commercial investment plans then the authorised limit will need to be reviewed to ensure that the maximum level of borrowing that the Council can take is not exceeded. Any change to the authorised limit will need approving by full Council.

The Council is asked to approve the following authorised limit:

| Authorised limit | 2018/19 Estimate £'000 | 2019/20 Estimate £'000 | 2020/21 Estimate £'000 | 2021/22 Estimate £'000 |
|---|---|---|---|---|
| Debt | 96,000 | 96,000 | 96,000 | 96,000 |
| Commercial Activities/Non-financial investments | 0 | 0 | 0 | 0 |
| Other long term liabilities | 0 | 0 | 0 | 0 |
| Total | 96,000 | 96,000 | 96,000 | 96,000 |

Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime. The maximum HRA CFR cannot be greater than the HRA debt cap. The difference between the two is known as the HRA headroom and it equates to borrowing that the HRA can still take. This limit is currently:

| HRA Debt Limit | 2018/19 Estimate £'000 | 2019/20 Estimate £'000 | 2020/21 Estimate £'000 | 2021/22 Estimate £'000 |
|---|---|---|---|---|
| HRA debt cap * | 88,770 | 88,770 | 88,770 | 88,770 |
| HRA CFR | 81,820 | 81,820 | 81,820 | 81,820 |
| HRA headroom | 6,950 | 6,950 | 6,950 | 6,950 |

* Abolition of HRA debt cap - In October 2018, the Prime Minister announced a policy change of abolition of the HRA debt cap. The Chancellor announced in the Budget in November that the applicable date was 29 October 2018. At this stage the detail behind the announcement is not yet known, but the Council welcomes this change in policy and would probably take advantage of the new freedom in the future.

### 3.3 Prospects for interest rates

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 and commentary gives Links view on interest rate prospects.

| Link Asset Services Interest Rate View | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 |
| Bank Rate View | 0.75% | 1.00% | 1.00% | 1.00% | 1.25% | 1.25% | 1.25% | 1.50% | 1.50% | 1.75% | 1.75% | 1.75% | 2.00% |
| 3 Month LIBID | 0.90% | 1.00% | 1.10% | 1.20% | 1.30% | 1.40% | 1.50% | 1.50% | 1.60% | 1.70% | 1.80% | 1.90% | 2.00% |
| 6 Month LIBID | 1.00% | 1.20% | 1.30% | 1.40% | 1.50% | 1.60% | 1.70% | 1.70% | 1.80% | 1.90% | 2.00% | 2.10% | 2.20% |
| 12 Month LIBID | 1.20% | 1.30% | 1.40% | 1.50% | 1.60% | 1.70% | 1.80% | 1.90% | 2.00% | 2.10% | 2.20% | 2.30% | 2.40% |
| 5yr PWLB Rate | 2.10% | 2.20% | 2.20% | 2.30% | 2.30% | 2.40% | 2.50% | 2.50% | 2.60% | 2.60% | 2.70% | 2.80% | 2.80% |
| 10yr PWLB Rate | 2.50% | 2.60% | 2.60% | 2.70% | 2.80% | 2.90% | 2.90% | 3.00% | 3.00% | 3.10% | 3.10% | 3.20% | 3.20% |
| 25yr PWLB Rate | 2.90% | 3.00% | 3.10% | 3.10% | 3.20% | 3.30% | 3.30% | 3.40% | 3.40% | 3.50% | 3.50% | 3.60% | 3.60% |
| 50yr PWLB Rate | 2.70% | 2.80% | 2.90% | 2.90% | 3.00% | 3.10% | 3.10% | 3.20% | 3.20% | 3.30% | 3.30% | 3.40% | 3.40% |

The generally positive economic statistics for the first half of 2018 meant that the MPC decided to increase the Bank Rate from 0.5% to 0.75% on 2 August 2018, (the first increase in above 0.5% since the financial crash). Due to growth slowing significantly during the last quarter at their November quarterly Inflation Report meeting, the MPC left Bank Rate unchanged, but expressed some concern at the Chancellor's fiscal stimulus in his Budget, which could increase inflationary pressures. However, it is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. On a major assumption that Parliament and the EU agree a Brexit deal in the first quarter of 2019, then the next increase in Bank Rate is forecast to be in May 2019, followed by increases in February and November 2020, before ending up at 2.0% in February 2022.

The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. However, over about the last 25 years, we have been through a period of falling bond yields as inflation subsided to, and then stabilised at, much lower levels than before, and supported by central banks implementing substantial quantitative easing purchases of government and other debt after the financial crash of 2008. Quantitative easing, conversely, also caused a rise in equity values as investors searched for higher returns and purchased riskier assets. In 2016, we saw the start of a reversal of this trend with a sharp rise in bond yields after the US

Presidential election in November 2016, with yields then rising further as a result of the big increase in the US government deficit aimed at stimulating even stronger economic growth. That policy change also created concerns around a significant rise in inflationary pressures in an economy which was already running at remarkably low levels of unemployment. Unsurprisingly, the Fed has continued on its series of robust responses to combat its perception of rising inflationary pressures by repeatedly increasing the Fed rate to reach 2.25 – 2.50% in December 2018. It has also continued its policy of not fully reinvesting proceeds from bonds that it holds as a result of quantitative easing, when they mature. We therefore saw US 10 year bond Treasury yields rise above 3.2% during October 2018 and also investors causing a sharp fall in equity prices as they sold out of holding riskier assets. However, by early January 2019, US 10 year bond yields had fallen back considerably on fears that the Fed was being too aggressive in raising interest rates and was going to cause a recession. Equity prices have been very volatile on alternating good and bad news during this period.

From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.

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.

**3.4 Investment and borrowing rates**

Investment returns are likely to remain low during 2019/20 but to be on a gently rising trend over the next few years.

Borrowing interest rates have been volatile so far in 2018-19 and while they were on a rising trend during the first half of the year, they have backtracked since then until early January. 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.

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

**3.5 Borrowing strategy**

As a result The Council is currently maintaining an under-borrowed position overall. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt. Instead cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are at an historic low and counterparty risk is still an issue that needs to be considered. Against this background and the risks within the economic forecast, caution will be adopted with the 2019/20 treasury operations. The Council will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances both internally and externally.

If the Council wishes to invest in commercial property it is likely that this will be funded by external borrowing in the long term. Although in the short to medium term the Council is able to temporarily utilise its cash balances as a short to medium term alternative to external borrowing i.e. internally borrow. This is considered to be an effective strategy at present as:

- It enables the Council to avoid significant external borrowing costs in the short to medium term (i.e. making it possible to avoid net interest payments); and
- It mitigates the risks associated with investing cash.

### 3.6 Policy on borrowing in advance of need

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

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

### 3.7 Debt rescheduling

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

The reasons for any rescheduling to take place will include:

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

Consideration will also be given to identify whether 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.

The Council currently has one long term variable rate debt which matures in 2024 and it carries a current interest rate of 11.625%. The cost of replacing this debt is prohibitive and this position is unlikely to change in the next three years.

The £79.19m of HRA debt is at fixed interest rates and the twenty four loans are repayable from 2024 to 2061. Their maturity dates are set to match income and expenditure levels in the HRA Business Plan and they will be reviewed in line with that plan. However, the primary objective of the plan over the next few years is to invest in the Council's housing stock and this position is not expected to change in the near future. Therefore these debts are unlikely to be rescheduled over the next three years. All rescheduling will be reported to the Cabinet at either the half year or full year report stage.

### 3.8 Municipal Bond Agency

It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future. The Agency hopes that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This Authority may make use of this new source of borrowing as and when appropriate.

## 4. ANNUAL INVESTMENT STRATEGY

### 4.1 Investment policy – management of risk

The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

The Council's investment policy has regard to the following: -

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018
- The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

The above guidance from the MHCLG and CIPFA places a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

2. **Other information:** 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 account of information that reflects the opinion of the markets. To achieve this consideration 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.

3. **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.

4. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix 12B (3) under the categories of 'specified' and 'non-specified' investments.

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
- **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments to a total of £25m, (see paragraph 4.3).

6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2.

7. **Transaction limits** are set for each type of investment in 4.2.

8. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 4.4).

9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).

10. This authority has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

11. All investments will be denominated in **sterling**.

12. As a result of the change in accounting standards for 2018/19 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1.4.18.)

    However, this authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.5). Regular monitoring of investment performance will be carried out during the year.

**Changes in risk management policy from last year.**
The above criteria are unchanged from last year.

Investment instruments identified for use in the financial year are listed in appendix 12B (3) under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices.

### 4.2 Creditworthiness policy

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.

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. The Council will therefore use counterparties within the following durational bands*:*

| | |
|---|---|
| Dark pink | Up to 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25 |
| Light pink | Up to 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5 |
| Purple | Up to 2 years |
| Blue | Up to 1 year (only applies to nationalised or semi nationalised UK Banks) |
| Orange | Up to 1 year |
| Red | Up to 6 months |
| Green | Up to 100 days |
| No colour | not to be used |

The Link Asset Services' creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

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.

All credit ratings will be monitored weekly. 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.

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.

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

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

### 4.3 Country limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch, other than the UK where the Council has set no limit. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 12B (4). This list will be added to, or deducted from by officers should ratings change in accordance with this policy.

### 4.4 Investment strategy

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). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow (amend as appropriate), where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

**Investment returns expectations.**

On the assumption that the UK and EU agree a Brexit deal in spring 2019, then Bank Rate is forecast to increase steadily but slowly over the next few years to reach 2.00% by quarter 1 2022. Bank Rate forecasts for financial year ends (March) are:

- 2018/19 0.75%
- 2019/20 1.25%
- 2020/21 1.50%
- 2021/22 2.00%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

| | **Now** |
|---|---|
| 2018/19 | 0.75% |
| 2019/20 | 1.00% |
| 2020/21 | 1.50% |
| 2021/22 | 1.75% |
| 2022/23 | 1.75% |
| 2023/24 | 2.00% |
| Later years | 2.50% |

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

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

Additionally the Council has loans to other Local Authorities and has invested in two property funds in 2018/19 following a selection process assisted by our Treasury Advisors Link. Both of these investment types are for periods of greater than 365 days and it is anticipated that returns on investments will be above the rates shown for the proportion of funding invested for these longer periods. Potential sums to be invested in this way are given below and the current snapshot of investments held for over 365 days is shown in Appendix 12B (6).

**Investment treasury indicator and limit** - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

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

| **Maximum principal sums invested > 365 days** | | | |
|---|---|---|---|
| **£m** | **2019/20** | **2020/21** | **2021/22** |
| Principal sums invested > | £25m | £25m | £25m |

### 4.5. Investment risk benchmarking

This Council will use an investment benchmark to assess the investment performance of its investment portfolio. For cash investments this will be the 3 month London Interbank Bid Rate (LIBID) which matches the weighted average time period of our current cash investments. Should the Council invest in Property Funds an appropriate additional benchmark will be added to measure the performance of these investments. This will be reported in the next available treasury report to Members.

### 4.6 End of year investment report

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

**APPENDICES FOR APPENDIX 12B**

## ECONOMIC BACKGROUND

**GLOBAL OUTLOOK. World growth** looks to be on an encouraging trend of stronger performance, rising earnings and falling levels of unemployment. In October, the IMF upgraded its forecast for world growth from 3.2% to 3.6% for 2017 and 3.7% for 2018.

In addition, **inflation prospects are generally muted** and it is particularly notable that **wage inflation** has been subdued despite unemployment falling to historically very low levels in the UK and US. This has led to many comments by economists that there appears to have been a fundamental shift downwards in the Phillips curve (this plots the correlation between levels of unemployment and inflation e.g. if the former is low the latter tends to be high). In turn, this raises the question of what has caused this? The likely answers probably lay in a combination of a shift towards flexible working, self- employment, falling union membership and a consequent reduction in union power and influence in the economy, and increasing globalisation and specialisation of individual countries, which has meant that labour in one country is in competition with labour in other countries which may be offering lower wage rates, increased productivity or a combination of the two. In addition, technology is probably also exerting downward pressure on wage rates and this is likely to grow with an accelerating movement towards automation, robots and artificial intelligence, leading to many repetitive tasks being taken over by machines or computers. Indeed, this is now being labelled as being the start of the **fourth industrial revolution.**

**KEY RISKS - central bank monetary policy measures**

Looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as Quantitative Easing (QE), where central banks bought large amounts of central government debt and smaller sums of other debt.

The key issue now is that that period of stimulating economic recovery and warding off the threat of deflation is coming towards its close and a new period has already started in the US, and more recently in the UK, on reversing those measures i.e. by raising central rates and (for the US) reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of an on-going reduction in spare capacity in the economy, and of unemployment falling to such low levels that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this then also encouraged investors into a search for yield and into investing in riskier assets such as equities. This resulted in bond markets and equity market prices both rising to historically high valuation levels simultaneously. This, therefore, makes both asset categories vulnerable to a sharp correction. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to neither squash economic recovery by taking too rapid and too strong action, or, alternatively, let inflation run away by taking action that was too slow and/or too weak. **The potential for central banks to get this timing and strength of action wrong are now key risks.**

There is also a potential key question over whether economic growth has become too dependent on strong central bank stimulus and whether it will maintain its momentum against a backdrop of rising interest rates and the reversal of QE. In the UK, a key vulnerability is the **low level of productivity growth**, which may be the main driver for increases in wages; and **decreasing consumer disposable income,** which is important in the context of consumer expenditure primarily underpinning UK GDP growth.

A further question that has come to the fore is whether **an inflation target for central banks of 2%**, is now realistic given the shift down in inflation pressures from internally generated inflation, (i.e. wage inflation feeding through into the national economy), given the above mentioned shift down in the Phillips curve.

Some economists favour a shift to a **lower inflation target of 1%** to emphasise the need to keep the lid on inflation. Alternatively, it is possible that a central bank could simply 'look through' tepid wage inflation, (i.e. ignore the overall 2% inflation target), in order to take action in raising rates sooner than might otherwise be expected. However, other economists would argue for a **shift *UP* in the inflation target to 3%** in order to ensure that central banks place the emphasis on maintaining economic growth through adopting a slower pace of withdrawal of stimulus. In addition, there is a strong argument that central banks should **target financial market stability**. As mentioned previously, bond markets and equity markets could be vulnerable to a sharp correction. There has been much commentary, that since 2008, QE has caused massive distortions, imbalances and bubbles in asset prices, both financial and non-financial. Consequently, there are widespread concerns at the potential for such bubbles to be burst by exuberant central bank action. On the other hand, too slow or weak action would allow these imbalances and distortions to continue or to even inflate them further. Consumer debt levels are also at historically high levels due to the prolonged period of low cost of borrowing since the financial crash. In turn, this cheap borrowing has meant that **other non-financial asset prices**, particularly house prices, have been driven up to very high levels, especially compared to income levels. Any sharp downturn in the availability of credit, or increase in the cost of credit, could potentially destabilise the housing market and generate a sharp downturn in house prices. This could then have a destabilising effect on consumer confidence, consumer expenditure and GDP growth. However, no central bank would accept that it ought to have responsibility for specifically targeting house prices.

**UK.** After the UK surprised on the upside with strong economic growth in 2016, **growth in 2017 has been disappointingly weak**; quarter 1 came in at only +0.3% (+1.8% y/y), quarter 2 was +0.3% (+1.5% y/y) and quarter 3 was +0.4% (+1.5% y/y). The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the EU referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 80% of GDP, has seen weak growth as consumers cut back on their expenditure. However, more recently there have been encouraging statistics from the **manufacturing sector** which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year while robust world growth has also been supportive. However, this sector only accounts for around 10% of GDP so expansion in this sector will have a much more muted effect on the overall GDP growth figure for the UK economy as a whole.

While the Bank of England is expected to give forward guidance to prepare financial markets for gradual changes in policy, the **Monetary Policy Committee, (MPC), meeting of 14 September 2017** managed to shock financial markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise soon. The Bank of England Inflation Reports during 2017 have clearly flagged up that it expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years' time. The Bank revised its forecast for the peak to just over 3% at the 14 September meeting. (Inflation actually came in at 3.1% in November so that may prove now to be the peak.) This marginal revision in the Bank's forecast can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment having already fallen to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that **the amount of spare capacity in the economy was significantly diminishing** towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of automation and globalisation. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a *decrease* in such globalisation pressures in the UK, and so this would cause additional inflationary pressure over the next few years.

At Its 2 November meeting, the MPC duly delivered a 0.25% increase in Bank Rate. It also gave forward guidance that they expected to increase Bank Rate only twice more in the next three years to reach 1.0% by 2020. This is, therefore, not quite the 'one and done' scenario but is, nevertheless, a very relaxed rate of increase prediction in Bank Rate in line with previous statements that Bank Rate would only go up very gradually and to a limited extent.

However, some forecasters are flagging up that they expect growth to accelerate significantly towards the end of 2017 and then into 2018. This view is based primarily on the coming fall in inflation, (as the effect of the effective devaluation of sterling after the EU referendum drops out of the CPI statistics), which will bring to an end the negative impact on consumer spending power. In addition, a strong export performance will compensate for weak services sector growth. If this scenario was indeed to materialise, then the MPC would be likely to accelerate its pace of increases in Bank Rate during 2018 and onwards.

It is also worth noting the **contradiction within the Bank of England** between action in 2016 and in 2017 **by two of its committees**. After the shock result of the EU referendum, the **Monetary Policy Committee (MPC)** voted in August 2016 for emergency action to cut Bank Rate from 0.50% to 0.25%, restarting £70bn of QE purchases, and also providing UK banks with £100bn of cheap financing. The aim of this was to lower borrowing costs, stimulate demand for borrowing and thereby increase expenditure and demand in the economy. The

MPC felt this was necessary in order to ward off their expectation that there would be a sharp slowdown in economic growth. Instead, the economy grew robustly, although the Governor of the Bank of England strongly maintained that this was *because* the MPC took that action. However, other commentators regard this emergency action by the MPC as being proven by events to be a mistake. Then in 2017, we had the **Financial Policy Committee (FPC)** of the Bank of England taking action in June and September over its concerns that cheap borrowing rates, and easy availability of consumer credit, had resulted in too rapid a rate of growth in consumer borrowing and in the size of total borrowing, especially of unsecured borrowing. It, therefore, took punitive action to clamp down on the ability of the main banks to extend such credit! Indeed, a PWC report in October 2017 warned that credit card, car and personal loans and student debt will hit the equivalent of an average of £12,500 per household by 2020. However, averages belie wide variations in levels of debt with much higher exposure being biased towards younger people, especially the 25 -34 year old band, reflecting their lower levels of real income and asset ownership.

One key area of risk is that consumers may have become used to cheap rates since 2008 for borrowing, especially for mortgages. It is a major concern that **some consumers may have over extended their borrowing** and have become complacent about interest rates going up after Bank Rate had been unchanged at 0.50% since March 2009 until falling further to 0.25% in August 2016. This is why forward guidance from the Bank of England continues to emphasise slow and gradual increases in Bank Rate in the coming years. However, consumer borrowing is a particularly vulnerable area in terms of the Monetary Policy Committee getting the pace and strength of Bank Rate increases right - without causing a sudden shock to consumer demand, confidence and thereby to the pace of economic growth.

Moreover, while there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two to three years will actually pan out.

**EZ.** Economic growth in the eurozone (EZ), (the UK's biggest trading partner), had been lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of QE. However, growth picked up in 2016 and has now gathered substantial strength and momentum thanks to this stimulus. GDP growth was 0.6% in quarter 1 (2.1% y/y), 0.7% in quarter 2 (2.4% y/y) and +0.6% in quarter 3 (2.6% y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in November inflation was 1.5%. It is therefore unlikely to start on an upswing in rates until possibly 2019. It has, however, announced that it will slow down its monthly QE purchases of debt from €60bn to €30bn from January 2018 and continue to at least September 2018.

USA. Growth in the American economy was notably erratic and volatile in 2015 and 2016. 2017 is following that path again with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1% and quarter 3 coming in at 3.2%. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.1%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on a gradual upswing in rates with four increases in all and four increases since December 2016; the latest rise was in December 2017 and lifted the central rate to 1.25 – 1.50%. There could then be another four increases in 2018. At its September meeting, the Fed said it would start in October to gradually unwind its $4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.

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

**JAPAN.** GDP growth has been gradually improving during 2017 to reach an annual figure of 2.1% in quarter 3. However, it is still struggling to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

## Brexit timetable and process

## Brexit timetable and process

- March 2017: UK government notified the European Council of its intention to leave under the Treaty on European Union Article 50 on 29 March 2019.
- 25.11.18 EU27 leaders endorsed the withdrawal agreement
- Dec 2018 vote in the UK Parliament on the agreement was postponed
- 21.12.18 – 8.1.19 UK parliamentary recess
- 15.1.19 Brexit deal defeated in the Commons vote by a large margin
- By 29.3.19 second vote (?) in UK parliament
- By 29.3.19 if the UK Parliament approves a deal, then ratification by the EU Parliament requires a simple majority
- By 29.3.19 if the UK and EU parliaments agree the deal, the EU Council needs to approve the deal; 20 countries representing 65% of the EU population must agree
- 29.3.19 Either the UK leaves the EU, or asks the EU for agreement to an extension of the Article 50 period if the UK Parliament has been unable to agree on a Brexit deal.
- 29.3.19: if an agreement is reached with the EU on the terms of Brexit, then this will be followed by a proposed **transitional period ending around December 2020.**
- UK continues as a full EU member until March 2019 with access to the single market and tariff free trade between the EU and UK. Different sectors of the UK economy may leave the single market and tariff free trade at different times during the transitional period.

- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.
- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK could also exit without any such agreements in the event of a breakdown of negotiations.
- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.
- On full exit from the EU: the UK parliament would repeal the 1972 European Communities Act.

**APPENDIX 12B(2)**

**Minimum Revenue Provision (MRP) Policy**

1. The council is required to pay off an element of the accumulated General Fund borrowing each year through a revenue charge (the MRP), and is also allowed to undertake additional voluntary payments (VRP).

2. MHCLG Regulations have been issued which require full council to approve an MRP Statement in advance of each year. A variety of options are provided so long as there is a prudent provision.

3. Council is recommended to approve the following MRP Statement:

For capital expenditure incurred:

(A) Before 1st April 2008 or which in the future will be Supported Capital Expenditure including the Adjustment A, the MRP policy will be to charge MRP on an annuity basis so that there is provision for the full repayment of debt over 50 years;

(B) From 1st April 2008 for all unsupported borrowing (excluding finance leases) the MRP policy will be to charge MRP on an annuity basis so that there is provision for the full repayment of debt over the life of the asset; Asset life is deemed to begin once the asset becomes operational. MRP will commence from the financial year following the one in which the asset becomes operational.

(C) MRP in respect of unsupported borrowing taken to meet expenditure, which is treated as capital expenditure by virtue of either a capitalisation direction or regulations, will be determined in accordance with the asset life method as recommended by the statutory guidance.

(D) Expenditure in respect of loans made to the council's wholly owned subsidiaries will not be subject to a minimum revenue provision as the council will have undertaken sufficient due diligence to expect these loans will be repaid in full to the council by a capital receipt either during the loan agreement term or at the end of the agreement. Therefore the council considers that it can take a prudent view that the debt will be repaid in full at the end of the loan agreement (or during if it is an instalment loan), so MRP in addition to the loan debt repayments is not necessary.

(E) Loans awarded to third parties for capital purposes - where the Council gives a loan to a third party towards expenditure which would, if incurred by the Council, be capital expenditure, the amounts paid out count as capital expenditure for capital financing purposes. The expenditure is therefore included in the calculation of the Council's Capital Financing Requirement. When the Council receives the repayment of an amount loaned, the income will be classified as a capital receipt. Where the capital receipts will be applied to reduce the Capital Financing Requirement, there will be no revenue provision made for the repayment of the debt liability (i.e. unless the eventual receipt is expected to fall short of the amount expended).

(F) Investment properties - where expenditure is incurred to acquire properties meeting the accounting definition of investment properties, the Capital Financing Requirement will increase by the amount expended. Where the Council will subsequently recoup the amount expended (e.g. via the sale of an asset), the income will be classified as a capital receipt. Where the capital receipts will be applied to reduce the Capital Financing Requirement, there will be no revenue provision made for the repayment of the debt liability (i.e. unless the fair value of the properties falls below the amount expended).

This is subject to the following details:

- An average asset life for each project will normally be used. There will not be separate MRP schedules for the components of a building (e.g. plant, roof etc.). Asset life will be determined by the Chief Finance Officer. A standard schedule of asset lives will generally be used (as stated in the Statement of Accounts accounting policies).
- MRP will commence in the year following the year in which capital expenditure financed from borrowing is incurred, except for single assets when expenditure is being financed from borrowing the MRP will be deferred until the year after the asset becomes operational.
- Other methods to provide for debt repayment may occasionally be used in individual cases where this is consistent with the statutory duty to be prudent, as justified by the circumstances of the case, at the discretion of the Chief Finance Officer.
- There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made. Transitional arrangements with respect to depreciation, revaluation and impairments; put in place at 1 April 2012 were due to expire on 31 March 2017. However the Item 8 determination released on 24 January 2017 has extended indefinitely the ability to charge depreciation, revaluations and impairments to the HRA but reverse in the Movement in Reserves Statement.
- Repayments included in annual finance leases are excluded from MRP as they are deemed to be a proxy for MRP.

MRP Overpayments - A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2019 the total VRP overpayments were £0m.

## TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

**SPECIFIED INVESTMENTS:** All such investments will be sterling denominated, with **maturities up to maximum of 1 year** with the exception of other Local Authorities which have a maximum of 2 years and investments in Property Funds which are longer-term investments. All investments will meet the minimum 'high' quality criteria where applicable.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories. The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

| | **Minimum credit criteria / colour band** | **** Max % of total investments/ £ limit per institution** | **Max. maturity period** |
|---|---|---|---|
| DMADF – UK Government | N/A | Unlimited | 6 months |
| UK Government gilts | UK sovereign rating | Unlimited | 12 months |
| UK Government Treasury bills | UK sovereign rating | Unlimited | 12 months |
| Bonds issued by multilateral development banks | AAA | Unlimited | 6 months |
| Money Market Funds (CNAV, LVAV & VNAV) | AAA | £7m any one institution and £18m in total | Liquid |
| Ultra-Short Dated Bond Funds with a credit score of 1.5 | AAA | £7m any one institution and £18m in total | Liquid |
| Local authorities | N/A | £5m any one institution and £20m in total | 24 months |
| Property Funds | N/A | £5m in total | 20 Years |
| Term deposits with banks and building societies | Purple | £8m any one institution and £12m in total | Up to 12 months |
| | Blue | £7m any one institution and £12m in total | Up to 12 months |
| | Orange | £8m any one institution and £20m in total | Up to 12 months |
| Term deposits with banks and building societies | Red | £8m any one institution and £40m in total | Up to 6 Months |
| | Green | £6m any one institution and £20m in total | Up to 100 days |
| | No Colour | Nil | Not for use |

**Non Specified Investments:** In light of the current and forecast low interest rates on specified investments the Council included the opportunity to invest in established Property Funds run by Fund Managers in a previous Treasury Management Strategy. These funds are longer term investments (typically 2-5 years) and give potentially higher returns than more liquid investment categories. Investments totaling £5m have been made in Property Funds in 2018. These investments will still form part of the £25m limit for investments of over 365 days duration, which is felt to be affordable within the Councils available reserves and balances.

**Accounting treatment of investments.** The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

## APPROVED COUNTRIES FOR INVESTMENTS

This list is based on those countries which have sovereign ratings of AA- or higher (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Capita Asset Services credit worthiness service.

AAA

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

AA+

- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- Hong Kong
- U.K.

AA-

- Belgium
- Qatar

## List of Approved Brokers for Investments

The list below represents approved brokers that the Council will use to facilitate its investment strategy when necessary;

King and Shaxson

Tradition (UK) Ltd

RP Martin

Link Asset Services Agency Treasury Services

**Current Investments as at 17th January 2019 (for information only).**

For illustrative purposes only the Council's investments as at 17th January 2019 are set out below. Please note that these investments alter on a daily basis.

| **Institution** | **Colour** | **Amount £m** | **Maturity Date** |
|---|---|---|---|
| Liverpool City Council | N/A | 2,000 | 25/01/2019 |
| Bournemouth Borough Council | N/A | 2,000 | 27/09/2019 |
| Wyre Forest District Council | N/A | 2,000 | 09/10/2020 |
| Sumitomo Mitsui Banking Corporation Europe | Red | 2,000 | 12/02/2019 |
| Sumitomo Mitsui Banking Corporation Europe | Red | 2,000 | 18/03/2019 |
| Close Brothers | Red | 2,000 | 26/04/2019 |
| Nationwide Building Society | Red | 5,000 | 08/07/2019 |
| Standard Chartered Bank | Red | 8,000 | 35 Days |
| Bank of Scotland | Orange | 8,000 | 95 Days |
| HSBC Bank | Orange | 5,000 | 3 Months |
| Santander | Orange | 3,000 | 180 Days |
| Money Market Funds | AAA Rated | 17,090 | 1 Day |
| Property Funds | N/A | 5,000 | |
| **TOTAL** | | **63,090** | |

APPENDIX 12B(7)

## TREASURY MANAGEMENT SCHEME OF DELEGATION

### (i) Council

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

### (ii) Cabinet

- approval of/amendments to the organisation's adopted clauses, treasury management policy
- statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing monitoring reports and acting on recommendations;

### (iii) Audit Committee/Overview Scrutiny Board

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

## THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

### The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non- financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above

**AUDIT COMMITTEE 26TH FEBRUARY 2019**

**Report of the Director of Corporate Services**
**Part A**

ITEM UPDATE ON THE COMMITTEE'S CONCERNS REGARDING UNDERSPENDING ON THE CAPITAL PROGRAMME

Purpose of Report

To update the Committee on the outcome of their concerns regarding underspending on the capital programme.

Recommendation

That the Committee note the report.

Reasons

To acknowledge the Committee's consideration of the matter.

Report Implications

The following implications have been identified for this report.

*Financial Implications*

*None.*

*Risk Management*

None.

Background Papers: Audit Committee 27th November 2018, item 35.
Cabinet 17th January 2019, item 73.

Officer to contact: Tina Stankley
Head of Finance and Property Services
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Tina.stankley@charnwood.gov.uk

**Part B**

Background

1. The concerns of the Audit Committee were raised at their last meeting on 27th November 2018. The Committee were discussing the Treasury Management Mid Year Review and noticed that the expenditure for 2018/19 was significantly lower than the same period last year. The Committee wanted reassurance from the relevant Cabinet Lead Members that the expenditure would increase to meet the budget by year end. The Committee resolved to submit a report to the Cabinet highlighting their concerns.

2. The Audit Committee's report was presented to the Cabinet at it's meeting on 17th January 2019. The Cabinet considered the report and the concerns of the Committee and agreed that the Capital Plan be amended on a quarterly basis to take into account the revised expenditure. This was at the suggestion of the Head of Finance and Property Services.

   Extract from the Cabinet minutes of the meeting held on 17th January 2019:

   *"Considered a report of the Head of Strategic Support to consider a recommendation of the Audit Committee at its meeting on 27th November 2018 in respect of underspend on the Capital Programme, alongside an officer recommendation and advice in that respect (item 6 on the agenda filed with these minutes).*

   *Mr Angell, Independent Chair of the Audit Committee, presented the recommendation of the Audit Committee. The Strategic Director of Corporate Services presented the officer recommendation and advice in response.*

   *The Head of Strategic Support assisted with consideration of the report.*

   *Officers were thanked for the detailed explanation of the current position set out in the report, which had provided reassurance in respect of the matter. Mr Angell and the Audit Committee were also thanked for their valuable work in respect of the matter and throughout the year.*

   ***RESOLVED*** *that in light of capital expenditure to date, the Capital Plan continues to be amended to reflect revised expenditure on a quarterly basis, in accordance with the recommendation of the Head of Finance and Property Services.*

   *Reason*

   *To reflect the likely outcome for the Capital Plan and to take account of the concerns of the Audit Committee."*

Appendices

Appendix A – Cabinet report 17th January 2019 - Capital Programme underpsend – Recommendations of Audit Committee

**CABINET – 17TH JANUARY 2019**

APPENDIX A

**Report of the Head of Strategic Support**

ITEM 6 CAPITAL PROGRAMME UNDERPSEND – RECOMMENDATIONS OF AUDIT COMMITTEE

Purpose of Report

To consider the recommendation of the Audit Committee relating to the spend level of the capital programme (which arose during the Committee's consideration of the Treasury Management Strategy and the Annual Investment Strategy for the first 6 months of 2018/19, see Audit Committee Minute 35, 2018/19), alongside an officer recommendation and advice in response, with a view to the Cabinet deciding if it wishes to agree the action it wishes to take.

Recommendations and Reasons

Set out below is a recommendation and reason of the Committee, followed by the officer recommendation and advice.

**Committee Recommendation**

That the Cabinet respond to the concerns of the Committee over the level of Capital Programme underspend and provide assurances that the programme would be significantly delivered before the end of the financial year.

Reason

The Committee had concerns about the level of capital programme expenditure against the budget expected at year end and wished to refer the matter to the Cabinet and re-visit the matter at the Audit Committee meeting scheduled for 26th February 2019.

**Officer Recommendation**

In light of capital expenditure to date, the Head of Finance and Property Services recommends that the Capital Plan continues to be amended to reflect revised expenditure on a quarterly basis.

Reason

To reflect the likely outcome for the Capital Plan.

**Response of the Head of Finance and Property Services to concerns raised by the Audit Committee**

There is an update below of the activity since the Audit Committee on 27th November 2018 which gives the latest position on the Capital Plan budgets and expenditure.

**Review of the General Fund Capital Plan**

Since the Capital Plan spend to date figures were presented in the Treasury Management Mid-year Review report to the Audit Committee in November, Cabinet has approved a net reduction to the General Fund capital plan of £323k from £5,213k to £4,890k on 13 December 2018. A breakdown of this net reduction is given below.

| | Full year budget £'000 |
|---|---|
| Position as at the end of Period 7 (end of October) | 5,213 |
| Capital Plan amendments as reported to Cabinet 13.12.18 | |
| Budget carry forwards: | |
| Loughborough University Science & Enterprise Park | (350) |
| Leicestershire Superfast Broadband | (100) |
| Carbon Management Scheme | (57) |
| Public Realm Shepshed town centre | (12) |
| | |
| Budget brought forward from 2019/20: | |
| Replacement Hardware Programme - Block Sum | 40 |
| | |
| Additional funding/New scheme | |
| Carillon Tower Restoration Project (covered by increase in external funding) | 7 |
| Messenger Close (covered by income from tenants) | 12 |
| Loughborough Market - new tug | 22 |
| The Outwoods (covered by increase in external funding) | 140 |
| | |
| Reduction in budget | |
| Green Spaces Programme (reduced level of external funding being received) | (25) |
| | |
| Position as at the end of Period 8 (end of November) | 4,890 |

The ongoing review and amendment of the Capital plan are processes embedded in the Council's procedures. The impact of the latest set of amendments is to revise the total planned capital expenditure downwards by a net £323k, principally due to the ongoing carry forward of prospective investment in Loughborough University Science & Enterprise Park (for which no concrete plans exist) and the carry forward of the next tranche of funding for Leicestershire Superfast Broadband, which is not a project that is managed by the Council.

The revised budget for 2018/19 at the end of Period 8 (November) was therefore £4,890k, of which £2,013k was profiled to have been spent at this time. The actual spend to the end of period 8 was £1,715k. Thus 85% of the profiled budget had been spent at this time compared to only 53% at the end of period 7. A summary of the General Fund spend as at the end of Period 7 and Period 8 are shown below.

| Capital Programme - updated position as at Period 8 (end of November) | | | | | |
|---|---|---|---|---|---|
| **General Fund** | Actual spend £'000 | Profiled budget £'000 | Spend as a % of profiled budget | Full year budget £'000 | Spend as a % of full-year budget |
| Position as at the end of Period 7 (end of October) | 940 | 1,787 | 53% | 5,213 | 18% |
| Position as at the end of Period 8 (end of November) | 1,715 | 2,013 | 85% | 4,890 | 35% |

The capital plan can be broken down into two distinct elements i.e. the directly delivered schemes and indirectly delivered schemes. It is important to understand that there is a difference between the two. Directly delivered schemes are the ones that the council has control over and the council is responsible for carrying out all aspects of the scheme from the design, through to the appointment of contractors and completion. Examples include capital spend on council car parks or the Town Hall. Indirectly delivered schemes are the schemes that the council is either funding or ‘passporting’ funding from third parties to individuals and organisations. These schemes will include the Disabled Facilities Grants and all the s106 funded schemes.

The split of the General Fund capital plan into the two elements is shown in the table below.

| Capital Programme - updated position as at Period 8 (end of November) | Actual spend £'000 | Profiled budget £'000 | % of profiled budget | Full year budget £'000 | Spend as a % of full- |
|---|---|---|---|---|---|
| **General fund** | | | | | |
| Directly delivered schemes | 1,267 | 1,213 | 104% | 2,790 | 45% |
| Indirectly delivered schemes | 448 | 801 | 56% | 2,104 | 21% |
| **Total - General Fund** | 1,715 | 2,013 | 85% | 4,894 | 35% |

As illustrated by the table above, expenditure on the directly delivered schemes is broadly on track in respect of the budget profile. Some risk exists with the delivery of the various schemes by the end of the financial year as profiling shows that over half of the expenditure is due to occur in the last third of the year (although much of this is already committed). There are other schemes within the capital plan where budgets are fully committed and will be spent by the year-end e.g. Information Technology related schemes. No one scheme is especially significant in the context of the total budget but certain schemes around the delivery of open spaces projects appear to carry a risk that not all will be complete by the end of the financial year.

As the figures in the table show, it is the indirectly delivered schemes, which the council cannot directly influence and control, where there is the highest level of underspend. A significant variance is around the Disabled Facilities Grants which at present is showing a spend of £379k to the end of period 8 against a total budget for the year of £1,029k (representing expenditure of 37% of the budget to this date). Of the full year budget 96% is committed (i.e. applications have been approved and each application has a budget set aside for it) but the council has no control beyond committing the budget and clearly some risk of underspending exists.

Appendix A gives details of all the schemes and budget managers have forecast their expected year-end position and commented on their schemes.

**Review of the HRA Capital Plan**

The HRA capital plan for 2018/19 is £7,566k, and 30% of this had been spent by the end of period 8. The actual expenditure at the end of period 8 was £2,281k and the profiled budget to the end of period 8 was £1,512k, thus 151% spent. The table below summarises the position and movement since the end of Period 7.

| Capital Programme - updated position as at Period 8 (end of November) | | | | | |
|---|---|---|---|---|---|
| **HRA** | Actual spend £'000 | Profiled budget £'000 | Spend as a % of profiled budget | Full year budget £'000 | Spend as a % of full-year budget |
| Position as at the end of Period 7 (end of October) | 681 | 1,123 | 61% | 7,566 | 9% |
| Position as at the end of Period 8 (end of November) | 2,281 | 1,512 | 151% | 7,566 | 30% |

All HRA services are directly delivered services. The total budget for these is £7,566k.

The total HRA budget can be split into two elements i.e. property acquisitions and improvements and enhancements to HRA assets. This is shown in the table below.

| Capital Programme - updated position as at Period 8 (end of November) | Actual spend £'000 | Profiled budget £'000 | Spend as a % of profiled budget | Full year budget £'000 | Spend as a % of full-year budget |
|---|---|---|---|---|---|
| **HRA** | | | | | |
| Property Acquisitions | 1,170 | 514 | 228% | 1,953 | 60% |
| Improvements & Enhancements to HRA Assets | 1,111 | 998 | 111% | 5,613 | 20% |
| **Total - HRA** | 2,281 | 1,512 | 151% | 7,566 | 30% |

The budget for property acquisitions has been 60% spent which is above the target for spend as at Period 8. It is anticipated that the full year budget will be spent by the end of the year if appropriate and suitable properties become available for sale and the council is able to purchase them. Any underspend for this budget for the year will be carried forward into 2019/20.

The rest of the HRA budget of £5,613k is for improvements and enhancements to HRA assets, primarily the housing stock. The spend at the end of period 8 was £1,111k which is 20% of the full year budget and there appears to be a significant risk that this element of the capital plan will not be completed within the financial year.

In respect of the above, the Head of Landlord Services has commented that "Mobilisation of the new capital contract with Fortem has been slower than expected, and there have been issues with Fortem's performance. A remedial plan and draft revised forecast have been provided by Fortem and are under review. It is expected that there will be an underspend across some Fortem capital budget lines based on performance to date. That said, a significant volume of work has been largely completed (Fortem estimate £1.7m to the end of December 2018) although not all of the amounts claimed have been agreed by the Council due to (for example) the required certification not being provided."

**Forecast of Year-end Position for the Capital Programme**

As noted above, Appendix A lists all the schemes that make up the capital plan. It shows the actual spend as at the end of November, the full year budget and the variance between these. It also gives a forecast of spend for the year and a comment about the scheme, both of which have been provided by the budget holder. The forecast spend for the full year is £10,461k which when compared to the full year budget of £12,661k shows that overall budget managers expect 84% of the budget to be spent. The capital budget will continue to be monitored. This forecast assumes full year spend of indirectly delivered schemes such as s106 schemes which can have the budget carried forward and the grants will be grant funded at the actual level of spend. As the indirectly delivered schemes are funded by external sources they do not impact on the council's availability of resources to fund capital schemes.

Policy Justification and Previous Decisions

Chapter 5, section 5.5 (b) of the Constitution states that the Audit Committee can refer matters of concern to the Council, Cabinet, or appropriate committee. The Chair or Vice Chair of the Committee may address the Cabinet or a committee and the Vice-chair of the Committee may address the Council before the report is considered.

Implementation Timetable including Future Decisions and Scrutiny

Monitoring of the capital programme is ongoing.

Report Implications

The following implications have been identified for this report.

*Financial Implications*

There are no direct financial implications.

*Risk Management*

There are no specific risks associated with the recommendations of the Audit Committee.

| | |
|---|---|
| Key Decision: | No |
| Background Papers: | Audit Committee Minute 35, 27th November 2018 |
| Officer to contact: | Karen Widdowson<br>Democratic Services Manager<br>(01509) 634785<br>karen.widdowson@charnwood.gov.uk |

**AUDIT COMMITTEE – 26TH FEBRUARY 2019**

**Head of Strategic Support**

**Part A**

ITEM INTERNAL AUDIT PLAN 2019/20

Purpose of Report

To present the proposed Internal Audit plan for 2019/20 and the proposed Internal Audit IT Plan for the period 2019-2022.

Recommendations

The Committee is recommended to approve the proposed Internal Audit Plans as set out in Appendix A and Appendix B.

Reasons

To ensure that internal audit resources are effectively utilised.

Policy Justification and Previous Decisions

The Council is required by the Accounts & Audit Regulations 2015 to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes; taking into account public sector internal auditing standards or guidance.

Implementation Timetable including Future Decisions

The Internal Audit Plan will be completed during the period April 2019 – March 2020. Progress against the Plan will continue to be reported to the Committee on a quarterly basis.

Report Implications

The following implications have been identified for this report.

*Financial Implications*

None

*Risk Management*

The risks associated with the decision the Committee is asked to make and proposed actions to mitigate those risks are set out in the table below.

| Risk Identified | Likelihood | Impact | Overall Risk | Risk Management Actions Planned |
|---|---|---|---|---|
| Failure to approve a satisfactory | Unlikely (2) | Serious (3) | Moderate (6) | Audit plans are derived using a risk based |

| Risk Identified | Likelihood | Impact | Overall Risk | Risk Management Actions Planned |
|---|---|---|---|---|
| audit plan could lead to ineffective targeting of internal audit resources. | | | | methodology and in consultation with the Corporate and Senior Management Teams. |

Background Papers: None

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**Part B**

## 1. Background

1. 1 The Public Sector Internal Audit Standards (PSIAS) require that the Chief Audit Executive (CAE) establishes a risk based Audit Plan to determine the priorities of the internal audit activity, consistent with the organisation's goals.

1.2 The PSIAS also require that the risk-based plan must take into account both the requirement to produce an annual Head of Internal Audit opinion to support the Annual Governance Statement and the assurance framework.

1.3 The Internal Audit Service will be delivered and developed as set out in the Internal Audit Charter

1.4 The Audit Plan is required to be reviewed and approved by both senior management and the 'Board'. As set out in the Internal Audit Charter, the role of the 'Board' is fulfilled by the Audit Committee.

1.5 Progress against the approved Audit Plan, together with any amendments required during the year, will be reported to the Audit Committee through the periodic reporting process.

## 2. Proposed Internal Audit Plan 2019/20

2.1 The proposed annual Audit Plan for 2019/20 is attached at Appendix A.

2.2 The Audit Plan has been prepared following a risk based assessment of the 'audit universe' and consultation with the Senior Management Team and Corporate Management Team, to identify the Council's key risks. Members of the Council's Cabinet and Audit Committee were also invited to put forward proposals for areas to be considered for inclusion in the Audit Plan.

2.3 Each audit assignment included in the Plan has been aligned to the Strategic and Corporate Risk Registers as appropriate.

2.4 The key financial systems work is planned in accordance with the revised approach to these audits which commenced in 2014/15 whereby a full audit of each system is undertaken every 3 years with targeted testing audits undertaken in the intervening years. This approach was agreed with the Council's S151 Officer following the Council's external auditors confirming that they would not be seeking to place any reliance on the work of internal audit for their accounts work or prescribe any work to be undertaken by internal audit in respect of the Council's key financial systems.

2.5 The resources for technical Information Technology (IT) audits have been procured. Further details are recorded below in section 4.

2.5 The resources allocated to each audit assignment have been planned based upon the expected complexity of the audit and by reference to previous audits where applicable.

2.6 A contingency of 30 days has been included in the Plan to provide flexibility in the event of ad hoc investigatory and other unplanned work being required to be undertaken during the year. The Plan also allows for completion of any audits not finished to final report stage from the 2017/18 annual plan.

2.7 It is not intended to place reliance on any other forms of assurance at this time.

2.8 The proposed Audit Plan was reviewed and approved for presentation to the Audit Committee by the Senior Management Team at their meeting held on the 17th January 2018.

## 3. Resources

3.1 The Internal Audit team is currently fully resourced with the equivalent of 1.8 full time employees.

3.2 It is anticipated that there will be sufficient resources available within the Internal Audit Team to enable the areas of key risk identified in the planning process to be included in the proposed Audit Plan. The resource requirements were ascertained by an allocation of audit days to each planned assignment.

## 4. Proposed Internal Audit IT Plan 2019–2022

4.1 A procurement exercise has been undertaken and the Council has awarded the contract to BDO (an auditing and accountancy firm).

4.2 The proposed Internal Audit IT Plan for the period 2019-2020 is attached for consideration and approval at Appendix B.

4.3 The Plan has been compiled by BDO, on the basis as follows:-

‘’ The rationale for not moving ahead with Cyber first and looking at Change Management etc. is that IT are changing the entire IT infrastructure over the coming 2 years. Accordingly, thought is to initially look at the IT strategy and assess whether this is actually the right strategy for the Council at this time for both IT and how it fits the needs of the council (considering flexibility for future proofing should changes in requirements occur).

Secondly, if they do change the entire infrastructure then this will present different controls and risks so the plan was to review the new environment, rather than conduct an audit and present management with findings that they advise they are already aware.

We could do it before but would also need to do it after as well and we are happy to take this approach.  One of the things we are still waiting for is the output of the latest penetration test; we were led to believe this was pretty ‘clean’ and no significant findings were made; however, we haven’t been able to quantify this as yet.’’

4.4 Further details of the approach are set out in Appendix B.

Appendices

Appendix A – Proposed Internal Audit Plan 2019/20

Appendix B – Proposed Internal Audit IT Plan 2019-2022

## APPENDIX A: Draft Internal Audit Plan 2019-20

| Audit Title | Service Area | Planned Days | Link to Corporate Plan/Strategic risk Register. | Previous Audit & Assurance Level | Rationale for Inclusion in Plan/Proposed Scope |
|---|---|---|---|---|---|
| **Key Financial Systems** | | | | | |
| *Full Systems Audit* | | | | | |
| Creditors | Financial Services | 10.00 | CP Theme: Service<br><br>Risks: No direct link to strategic risks | 2018-19 Planned audit | Year 3 of the approved approach to key financial systems audits to cover the 3 year period 2017-2020. |
| Debtors | Financial Services | 10.00 | CP Theme: Service<br><br>Risks: No direct link to strategic risks | 2018-19 Planned audit | |
| Council Tax | Revenues & Benefits | 10.00 | CP Theme: Service<br><br>Risks: SR4 | 2018-19 Planned audit | |
| *Interim Audits (Targeted testing)* | | | | | |
| Payroll | Financial Services | 3.00 | CP Theme: Service<br><br>Risks: No direct link to strategic risks | 2018-19 Planned audit | |
| Accountancy & Budgetary Control | Financial Services | 3.00 | CP Theme: Service<br><br>Risks:SR4 | 2018-19 Planned audit | |
| Capital Accounting | Financial Services | 2.00 | CP Theme: Service<br><br>Risks: No direct link to strategic risks | 2018-19 Planned audit | |
| Income Collection | Financial Services/ Customer Services | 2.00 | CP Theme: Service<br><br>Risks: No direct link to strategic risks | 2018-19 Planned audit | |
| Housing Benefits | Revenues & Benefits | 3.00 | CP Theme: People, Service | 2018-19 Planned | |

| Audit Title | Service Area | Planned Days | Link to Corporate Plan/Strategic risk Register. | Previous Audit & Assurance Level | Rationale for Inclusion in Plan/Proposed Scope |
|---|---|---|---|---|---|
| | | | Risks: No direct link to strategic risks | audit | |
| Non Domestic Rates | Revenues & Benefits | 2.00 | CP Theme: Service<br><br>Risks: SR4 | 2018-19 Planned audit | |
| Housing Rents | Landlord Services/ Financial Services | 3.00 | CP Theme: People, Service<br><br>Risks: No direct link to strategic risks | 2018-19 Planned audit | |
| *Quarterly Testing* | | | | | |
| Treasury Management | Financial Services | 2.00 | CP Theme: Service<br><br>Risks:SR4 | | |
| Bank Reconciliation | Financial Services | 2.00 | CP Theme: Service<br>Risks: No direct link to strategic risks | | |
| ***TOTAL DAYS – KFS Audits*** | | ***52.00*** | | | |
| | | | | | |
| | | **Strategic & Service Risk Audits – from Risk Assessment & Directorate Input** | | | |
| Anti fraud including National Fraud Initiative. | All | 25.00 | CP Theme: Service<br><br>Risks: No direct link to strategic risks | | Pro Active Anti-Fraud Work. Results of the 2018 National Fraud Initiative data matching exercise will be available at the end of January 2019. |
| Disabled Facilities Grants | Strategic & Private Sector Housing | 3.00 | N/A Annual certification audit for Leicestershire County Council. | 2018/19 Substantial | Annual certification audit required from 2018/19. |
| Choice Based Lettings/Allocations | Strategic & Private Sector Housing | 12.00 | CP Theme: People<br><br>Risks: No direct link to strategic risks | 2015/16 (included in Voids Management | Review of compliance with allocations policies and procedures. |

| Audit Title | Service Area | Planned Days | Link to Corporate Plan/Strategic risk Register. | Previous Audit & Assurance Level | Rationale for Inclusion in Plan/Proposed Scope |
|---|---|---|---|---|---|
| | | | | audit) | |
| Voids Management | Landlord Services | 12.00 | CP Theme: People<br><br>Risks: SR4 | 2015/16 Moderate | Review of effectiveness of policies and procedures in returning void properties available for letting. |
| Responsive Repairs – Materials Ordering and Stock Control | Landlord Services | 15.00 | CP Theme: People<br><br>Risks: No direct link to strategic risks. | 2013/14 - Materials Procurement Limited<br><br>2015/16 - Materials Stock Control Moderate | Review of compliance with and effectiveness of policies and procedures for ordering of repairs materials and stock control. |
| Food Safety | Regulatory Services | 10.00 | CP Theme: People<br><br>Risks: No direct link to strategic risks | 2016/17 Substantial | The 2016/17 audit reviewed the implementation of recommendations arising from the 2016 Food Safety Agency Inspection.<br>This audit proposes to review performance against Business Plan objectives and the Food Code of Practice. |
| Building Control | Planning & Regeneration | 12.00 | CP Theme: Place<br><br>Risks: No direct link to strategic risks | 2015/16 Moderate | Review of fee setting and administrative processes within the service and implications of the findings of the audit for shared service arrangements. |
| Fleet Management | Cleansing & Open Spaces | 10.00 | CP Theme: Service<br><br>Risks: No direct link to strategic risks | 2016/17 Moderate | Review of fleet managements arrangements. Change of management since last review. |
| Leisure Centres Contract | Leisure & Culture | 12.00 | CP Theme: People, Service<br><br>Risks: No direct link to strategic risks | 2015/16 Moderate | Review of contract monitoring arrangements. |
| Town Hall | Leisure & Culture | 15.00 | CP Theme: People, Service | 2016/17 Substantial | Review of Town Hall policies and procedures and compliance with them. Previous audit was a |

| Audit Title | Service Area | Planned Days | Link to Corporate Plan/Strategic risk Register. | Previous Audit & Assurance Level | Rationale for Inclusion in Plan/Proposed Scope |
|---|---|---|---|---|---|
| | | | Risks: No direct link to strategic risks | | follow up audit to ensure the recommendations and agreed actions arising from the 2014/15 which had a 'Limited' assurance rating had been implemented. |
| Charnwood Grants | Neighbourhood Services | 10.00 | CP Theme: People<br><br>Risks: No direct link to strategic risks | 2014/15 Moderate | Review of compliance with grants policies and procedures. |
| Right To Buy | Finance & Property Service | 10.00 | CP Theme: People, Place<br><br>Risks: No direct link to strategic risks | 2015/16 Substantial | Review of policies and procedures and compliance with legislation, and procedures for identification of potential fraud risk. |
| Asset Management | Finance & Property Services | 10.00 | CP Theme: Service<br><br>Risks: No direct link to strategic risks | 2017/18 Briefing note of audit work undertaken and findings produced for HoS. | The review undertaken in 2017/18 was superseded by the development of the new Asset Management Strategy. This review will focus on implementation of the Strategy. |
| Absence Management | Strategic Support/All | 12.00 | CP Theme: Service<br><br>Risks: No direct link to strategic risks | 2007/08<br><br>Equivalent to Moderate | Review of compliance with and effectiveness of the Absence Management policies and procedures. |
| People Strategy | Strategic Support/All | 15.00 | CP Theme: Service<br><br>Risks: No direct link to strategic risks | None | Review of the development and implementation of the People Strategy to incorporate work force planning and learning and development. |
| Strategic Communications | Strategic Support/All | 12.00 | CP Theme: Service<br><br>Risks: SR6 | 2010/11<br><br>Substantial | Review of implementation/compliance with and effectiveness of strategy/policies. |
| General Data Protection | All | 12.00 | CP Theme: Service | 2017/18 (Data | Review of compliance with policies and procedures by services and progress with |

| Audit Title | Service Area | Planned Days | Link to Corporate Plan/Strategic risk Register. | Previous Audit & Assurance Level | Rationale for Inclusion in Plan/Proposed Scope |
|---|---|---|---|---|---|
| Regulations (GDPR) | | | Risks: SR2 | Protection & Information Security)<br><br>Substantial | ongoing GDPR work. |
| Procurement | All | 12.00 | CP Theme: Service<br><br>Risks: No direct link to strategic risks | 2016/17 (Fraud & Corruption)<br><br>Substantial | Review of compliance with policies/Contract Procedure Rules. |
| Project Management | All | 12.00 | CP Theme: Service<br><br>Risks: No direct link to strategic risks | 2007/08<br><br>Equivalent to Moderate | Governance review of project management arrangements. |
| ***TOTAL DAYS – Strategic & Service Risk Audits*** | | **231.00** | | | |
| | | | | | |
| **Other Work** | | | | | |
| Recommendations Follow Up | All | 30.00 | | | |
| Ad Hoc Investigations /Contingency | All | 40.00 | | | |
| Allowance to complete 2018-19 Audits | | 37.00 | | | |
| ***TOTAL DAYS – OTHER WORK*** | | ***107.00*** | | | |
| | | | | | |
| **TOTAL AUDIT DAYS** | | ***390.00*** | | | |

# CHARNWOOD BOROUGH COUNCIL

## INTERNAL AUDIT IT PLAN 2019-2022

December 2018

## INTRODUCTION

Our role in providing internal audit support on the IT audit programme is to provide independent, objective assurance designed to add value and improve your performance. Our approach, as set out in the Firm's Internal Audit Manual, is to help you accomplish your objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Our approach complies with best professional practice, in particular, CIPFA Internal Audit Standards and Public Sector Internal Audit Standards.

## Internal Audit at Charnwood Borough Council

We have been appointed to provide internal audit support on IT audit to Charnwood Borough Council (the 'Council') to provide the Audit and Risk Manager, s151 officer, and the Audit Committee with assurance on the adequacy of internal control arrangements, including risk management and governance, relating to the IT control environment.

Responsibility for these arrangements remains fully with management, who should recognise that internal audit can only provide 'reasonable assurance' and cannot provide any guarantee against material errors, loss or fraud. Our role at the Council will also be aimed at helping management to improve risk management, governance and internal control for IT systems and controls, so reducing the effects of any significant risks facing the organisation.

In producing the IT internal audit operational plan for 2019-20, 2020-21 and 2021-22 strategic plan we have sought to further clarify our initial understanding of the business of the Council together with its risk profile in the context of:

- The overall business strategy and objectives of the Council
- The key areas where management wish to monitor performance and the manner in which performance is measured
- The financial and non-financial measurements and indicators of such performance
- The information required to 'run the business'
- The key challenges facing the Council.

## BACKGROUND

Our risk based approach to Internal Audit uses the Council's own risk management process and risk register as a starting point for audit planning as this represents the client's own assessment of the risks to it achieving its strategic objectives.

The extent to which we can rely on management's own perception of risk largely depends on the maturity and effectiveness of the Council's own risk management arrangements. In estimating the amount of audit resource required to address the most significant risks, we have also sought to confirm that senior management's own assessment of risk accurately reflects the Council's current risk profile.

## INDIVIDUAL AUDITS

When we scope each review, we will reconsider our estimate for the number of days needed to achieve the objectives established for the work and to complete it to a satisfactory standard in light of the control environment identified within the Council. Where revisions are required we will obtain approval from the Audit and Risk Manager and s151 Officer where appropriate prior to commencing fieldwork and we will report this to the Audit Committee.

In determining the timing of our individual audits we will seek to agree a date which is convenient to the Council and which ensures availability of key management and staff.

## VARIATIONS TO THE PLAN

Significant variations to the plan arising from our reviews, changes to the Council's risk profile or due to management requests will be discussed in the first instance with the Audit and Risk Manager and s151 officer as appropriate and approved by the Audit Committee before any variation is confirmed.

## APPROACH TO CREATING THE PLAN

The indicative IT Internal Audit programme for 2019-20 is shown in this document. We have not stated which quarter they will be reviewed in because we have been appointed half way through the audit year and therefore once this Plan is approved they all are priority to be completed as soon as Council and BDO resources become available.

| | |
|---|---|
| 1 | Agreed approach with Audit and Risk Manager |
| 2 | Discussed risks/reviews with IT Service Delivery Manager and Head of Service 12/12/18 |
| 3 | Issued a survey to the IT Service Delivery Manager and Head of Service asking specific questions around IT risks facing the Council |
| 4 | Considered client/sector risks and audit plans across our portfolio |
| 5 | Reviewed the Council's Risk Register, Strategic Objectives and prior auditors reports |
| 6 | Finalised draft Plan with Audit and Risk Manager, IT leads and s151 officer |
| 7 | Presented our Plan to SMT meeting on 16 January 2019 with Plan |
| 7 | Presented the Draft Plan to the Audit Committee for consideration and approval in March 2019 |

## STAFFING

The core team that will be delivering the programme to you is shown below:

| Name | Role | Telephone | Email |
|---|---|---|---|
| Greg Rubins | Head of Internal Audit | 07710 703 441 | Greg.Rubins@bdo.co.uk |
| Gurpreet Dulay | Audit Manager | 07870 555 214 | Gurpreet.Dulay@bdo.co.uk |

The core team will be supported by specialists from our national Risk and Advisory Services Team and wider firm as and when required.

Our indicative staff mix to deliver the programme for 2019-20 is shown below:

| Role | Days | Role mix % |
|---|---|---|
| Head of Internal Audit | 4 | 10% |
| Audit Manager | 12 | 30% |
| Senior Auditor | 12 | 30% |
| Other (Specialists / Junior Auditor) | 12 | 30% |
| **Total** | **40** | |

## REPORTING TO THE AUDIT COMMITTEE

We will submit the indicative IT Internal Audit Plan for discussion and approval by the Audit Committee in March 2019. We will liaise with the Senior Management Team and other senior officers as appropriate to ensure that internal audit reports summarising the results of our visits are presented to the appropriate Audit Committee meeting.

Following completion of the Internal Audit programme each year we will liaise with the Council's Audit and Risk Manager as they produce the Internal Audit Annual Report summarising our key findings and evaluating our performance in accordance with agreed service requirements. Please note that should it be felt the number of days in the plan is to be greater than 40 then Internal Audit can accommodate this.

## INTERNAL AUDIT PLAN 2019-20, 2020-21, and 2021-22

| Review | 2019-20 | 2020-21 | 2021-22 | Description |
|---|---|---|---|---|
| Strategic Priority - All | | | | |
| IT Project Management<br><br>CRR: 1, 3, 44 | 15 | | | To review the capability of Charnwood to deliver successful IT programmes and projects by reviewing the end-to-end methodology together with a sample of 3 current technology related projects.<br><br>The following areas will be included within our review:<br>• Reviewing the existing Project Portfolio management methods, tools and governance around how the Council monitor the delivery of its strategic projects<br>• Evaluate the project management standards and methods across the Council and the application of those standards.<br>• Assessing the extent of Project Management resourcing across the Council |
| IT Strategy<br><br>CRR: 1-4, 45 | 12 | | | The absence of a defined IT strategy may result in a misalignment with the Council's strategic objectives.<br><br>The purpose of this review is to assess the appropriateness of the mechanisms and arrangements to develop the current IT Strategy, its alignment with the wider strategic objectives of the organisation, and the degree of consideration of the current IT environment and future requirements of the organisation. |
| IT 3rd Party Supplier management<br><br>CRR: 12, 48 | 10 | | | The need to assure that services provided by third parties (suppliers, vendors and partners) meet business requirements requires an effective third-party management process. This process is accomplished by clearly defining the roles, responsibilities and expectations in third-party agreements as well as reviewing and monitoring such agreements for effectiveness and compliance. Effective management of third-party services minimises the business risk associated with non-performing suppliers<br><br>Our review will assess the adequacy of the Councils arrangements to managed IT third parties. |
| IT Disaster Recovery<br><br>CRR: 21, 31 | | 13 | | The core risk associated with this review is that the IT disaster recovery arrangements may not be fit-for-purpose and would not allow IT management to recover their key applications in the timeframe required. The purpose of the review is to provide |

| | | | | |
|---|---|---|---|---|
| | | | | assurance over the design of the disaster recovery planning arrangements, processes and underlying controls that are in operation for promoting resilience within the organisation's IT environment. |
| Cyber Security<br><br>CRR: 8 - 25, 36, 37, 42, 43, 51 - 53 | | 16 | | This is a risk area for all organisations and typical risks are:<br>• Senior management are not aware of the cyber security risks to the Council<br>• The Council does not have adequate policies and procedures related to information security, data protection and IT infrastructure<br>• The Council does not have adequate management arrangements in place for identifying and responding to cyber security threats<br>• The Council is unable to identify and respond to a cyber security attack.<br>• The Council has not identified and risk assessed its critical information assets<br>• Information assets are exposed to a breach through an absence of IT controls |
| IT Helpdesk / Demand Management<br><br>CRR: 2, 4, 43 | 20 | 8 | | Understanding key business requirements and being able to provide an effective response to demand management are the key fundamentals to a successful service delivery.<br>Without an appropriate IT Service Delivery framework, there is a risk of poor performance of IT services, which can bring destruction or reduction of value to Charnwood<br>This audit will assess the structure of the Council's IT service and provide assurance that it is aligned to the needs of stakeholders from across the Council. |
| Application Controls<br><br>CRR: 1, 11, 13, 14, 18, 22, 37 | | | 12 | The security of information assets is dependent on the security of the Council's IT applications. For a number of Council applications (to confirm with management), we would review the following:<br>• IT application security standards<br>• IT application identification<br>• User account creation, amendment and removal<br>• User access controls<br>• Report writers<br>• Generic accounts<br>• Interfaces to other applications<br>• Target/destination systems<br>• Database controls<br>• Staging area/testing facility |
| Change Controls<br><br>CRR: 10, 11 | | | 10 | We will assess whether:<br>• all changes, including emergency maintenance and patches, relating to infrastructure and applications |

| | | | | |
|---|---|---|---|---|
| | | | | within the production environment are formally managed in a controlled manner<br>• Changes (including those to procedures, processes, system and service parameters) are logged, assessed and authorised prior to implementation and reviewed against planned outcomes following implementation. |
| Data Governance and GDPR<br><br>CRR: 18, 20, 38, 45, 51 - 53 | | | 15 | As local authorities collect, store and process data with almost every transaction, the risks to an individual in terms of how their data is used and protected is high and there are penalties if standards are not followed.<br><br>The purpose of this review is to assess the adequacy of Charnwood's arrangements to comply with GDPR requirements. Our review will assess Charnwood's GDPR framework and identify any areas for improvement. |
| | | | | |
| **SUB-TOTAL** | **37** | **37** | **37** | |
| | | | | |
| Follow Up | 3 | 3 | 3 | This includes all planning, liaison and management of the IT Internal Audit contract |
| | | | | |
| **TOTAL DAYS** | **40** | **40** | **40** | |

FOR MORE INFORMATION:

**Gurpreet Dulay**

Gurpreet.Dulay@bdo.co.uk

The matters raised in this report are only those which came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. The report has been prepared solely for the management of the organisation and should not be quoted in whole or in part without our prior written consent. BDO LLP neither owes nor accepts any duty to any third party whether in contract or in tort and shall not be liable, in respect of any loss, damage or expense which is caused by their reliance on this report.

**AUDIT COMMITTEE – 26TH February 2019**

**Report of the Head of Strategic Support**

**Part A**

ITEM 9 INTERNAL AUDIT PROGRESS REPORT

Purpose of Report

The report summarises the progress against outstanding audits for the 2017/18 Audit Plan and progress in respect of the 2018/19 Audit Plan. Furthermore, it outlines the key findings from final audit reports and details of follow-up work completed since the previous progress report, considered by the Audit Committee at the meeting held 4th September 2018.

Recommendation

That the Committee notes the report.

Reason

To ensure the Committee is kept informed of progress against the approved Internal Audit Plan.

Policy Justification and Previous Decisions

The Accounts and Audit Regulations 2015 state (Regulation 5 (1)) that the relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the Public Sector Internal Audit Standards and any appropriate guidance.

Implementation Timetable including Future Decisions

Reports will continue to be submitted to the Committee on a quarterly basis.

Report Implications

The following implications have been identified for this report:-

*Financial Implications*

None

*Risk Management*

There are no specific risks associated with this report

| | |
|---|---|
| Background Papers: | None |
| Officers to contact: | Adrian Ward, 01509 634573<br>adrian.ward@charnwood.gov.uk<br><br>Ellen Williams, 01509 634804<br>ellen.williams@charnwood.gov.uk |

**Part B**

## 1. Progress against the 2017/18 and 2018/19 Audit Plans

### 1.1 Progress against the 2017/18 Audit Plan

**General Audits** – At the last Audit Committee, it was reported that five audits remained to be completed from the 2017/18 Audit Plan, these being three targeted audits of the main financial systems i.e. Payroll, Creditors and Capital Accounting, together with two service audits i.e. Markets & Fairs, and Asset Management.

It had been agreed with the Strategic Director of Corporate Services and Head of Strategic Support that the work planned to be undertaken in respect of the three financial systems audits would be deferred to be incorporated into the 2018/19 audits of these areas due to timing issues. Of the two remaining service audits, Markets & Fairs is in progress and the Asset Management audit has been deferred until 2019/20 so that it can incorporate a review of progress against the implementation of a new Asset Management Strategy for 2018/19 to 2020/21.

**IT Audits** – In addition, there were two IT Audits that remained outstanding from 2017/18. ICT audits are undertaken by an external contractor and these have now both been completed and details are as follows:-

The ICT Key Controls audit report was finalised in October 2018.

The Change Management audit report was finalised in January 2019.

**Other Points to Note -**

A procurement exercise has been completed for the future provision of Technical IT audit services, and the contract commenced on the 1st December 2018. A separate Audit Committee report requesting Committee's approval of the 2019 – 2022 Internal Audit IT Plan, provides further details of the proposed audit work under this contract.

### 1.2. Progress against the 2018/19 Audit Plan

Appendix A summarises progress against the 2018/19 Audit Plan.

As previously reported, there has been some slippage with the 2018/19 plan due to more resources being required to complete the 2017/18 audits than was anticipated at the time the 2018/19 plan was drafted and approved. Also, as previously reported to the Committee there was a case of sickness absence within the Audit team during July - September which impacted on completion of the carried over 2017/18 audits and progression with 2018/19 planned audits.

In addition, resources were required to complete unplanned audit work in respect of Disabled Facility Grants certification, where Internal Audit assurance was required.

Having previously reviewed the resources available for the remainder of the financial year and the audits remaining to be completed and following discussion with the Strategic Director of Corporate Services and the Head of Strategic Support, it was decided to procure additional resources to undertake the audits listed below which amount to a total of 48 (revised from 50) days planned work.

This should assist in ensuring the completion of the Audit Plan by the end of the financial year and enable work on the 2019/20 Audit Plan to commence in April 2019.

Accounting & Budgetary Control – 10 days
Capital Accounting – 8 days
Enforcement – 20 days
Holiday Entitlement /Flexi/TOIL – 10 days (originally 12 days)

Since the last Audit Committee meeting, one of the Auditors and the Audit & Risk Manager have left the Council. An experienced Interim Audit & Risk Manager has been appointed, and the Head of Strategic Support is currently evaluating options for resourcing the delivery of the Audit Plan moving forwards.

## 3. Final Audit Reports Issued

The following final audit reports have been issued since the last update report to the Committee. Further detail in respect of these audits is attached in Appendix B, including a background section, the executive summary, and the agreed action plan listing recommendations made and the management responses.

| Audit | Field Work Completed | Draft Report Issued | Final Report Issued | Current Level of Assurance | Previous Audit Level of Assurance | Corporate Significance |
|---|---|---|---|---|---|---|
| Anti-social Behaviour 2018/19 | Oct.18 | Nov.18 | Dec.18 | **Moderate** | Substantial (included in 2012/13 Safeguarding audit) | High |
| Corporate Credit Cards 2018/19 | Nov.18 | Dec-18 | Jan-19 | **Moderate** | No previous audit | Medium |

## 4. IT Audits

One final IT audit report has been issued since the last update report to the Committee. Further details in respect of this audit are included in Appendix B.

| Audit | Field Work Completed | Draft Report Issued | Final Report Issued | Current Level of Assurance | Previous Audit Level of Assurance | Corporate Significance |
|---|---|---|---|---|---|---|
| Change Management 2017/18 | Dec-18 | Dec-18 | Jan 19 | **Substantial** | Substantial (2015/16) | High |

## 5. Follow Up of Recommendations

The table below summarises the follow-up status of recommendations which were due to be implemented during the quarter October 2018 – December 2018.

The status of recommendations is as follows:-.

| | Priority Level | Implemented | Not Implemented | No Further Action |
|---|---|---|---|---|
| Oct - Dec 2018 | High | 0 | 0 | 0 |
| | Medium | 11 | 1 | 4 |
| | Low | 16 | 8 | 2 |
| **Percentages** | | **65%** | **21%** | **14%** |

## 6. Special Investigations

There have been no special investigations undertaken during the reporting period.

## 7. Performance Indicators for Internal Audit

The following summary outlines the results against the local performance indicators for Internal Audit for 2018/19.

| Indicator | Target | Result | Notes |
|---|---|---|---|
| Percentage of clients that rated the performance of Internal Audit as satisfactory or higher. | 90% (Annual) | 100% | Based upon the number of Head of Service responses received (4/10) April 2018. |
| Percentage of the agreed 2018/19 Internal Audit plan delivered (as at 31/12/2018). | 48% | 30% | See commentary in Section1.2 of report. Percentage completed based upon actual time spent on 2018/19 planned audits by the in-house team.<br><br>As noted in the report, 48 days of work have been outsourced, which represents a further 16% of the agreed Audit plan. |
| Percentage of agreed recommendations arising from internal audit reviews implemented by the agreed date (as at 31.12.18) | 80% | 65% | October – December 2018 (27/42 recommendations) |

Appendices

Appendix A – Summary of progress against the 2018/19 Audit Plan as at the 31st December 2018

Appendix B – Summary of Final Audit Reports Issued

Appendix C – Summary of Final IT Audit Reports Issued

Appendix D – Summary of Recommendations not Implemented

**Appendix A**

**PROGRESS AGAINST THE 2018/19 AUDIT PLAN**

| 2018/19 Audit Plan | Plan Days | Spent Days (31.12.18) | Status as at 31.12.18 | Assurance Level | Corporate Significance |
|---|---|---|---|---|---|
| **Key Financial Systems** | | | | | |
| *Full Systems Audit* | | | | | |
| *Accountancy & Budgetary Control* | 10.00 | n/a | Outsourced – started January 2019 | | |
| Payroll | 10.00 | 0.00 | Scheduled for Q4 – timetabled for March 2019 | | |
| *Capital Accounting* | 8.00 | n/a | Outsourced - started January 2019 | | |
| Non Domestic Rates | 8.00 | 0.30 | Scheduled for Q4 - timetabled for February 2019 | | |
| | | | | | |
| *Targeted Testing:* | | | | | |
| Creditors | 3.00 | 0.00 | Scheduled for Q4 – timetabled for March 2019 | | |
| Debtors | 2.00 | 0.00 | Scheduled for Q4 – timetabled for March 2019 | | |
| Income Collection | 2.00 | 0.00 | Scheduled for Q4 - timetabled for February 2019 | | |
| Housing Benefits | 3.00 | 0.00 | Scheduled for Q4 | | |
| Council Tax | 3.00 | 1.66 | In Progress - draft report to be | | |

| 2018/19 Audit Plan | Plan Days | Spent Days (31.12.18) | Status as at 31.12.18 | Assurance Level | Corporate Significance |
|---|---|---|---|---|---|
| | | | issued in February 2019 | | |
| Housing Rents | 3.00 | 0.00 | Scheduled for Q4 - timetabled for March 2019 | | |
| | | | | | |
| *Quarterly Testing:* | | | | | |
| Treasury Management | 2.00 | 0.50 | Q3 checks completed – Q4 due April 2019 | | |
| Bank Reconciliation | 2.00 | 0.75 | Q3 checks completed – Q4 due April 2019 | | |
| | | | | | |
| **Sub Total – KFS Reviews** | **56.00** | **1.25** | **Work generally planned for Q4 and 18 days outsourced** | | |
| | | | | | |
| **Strategic & Service Risk Audits** | | | | | |
| NFI/Counter Fraud | 10.00 | 5.00 | Ongoing – results due in February 2019 | | |
| Homelessness | 12.00 | 11.00 | In Progress – final report to be issued February 2019 | | |
| Decent Homes Contract | 15.00 | 0.50 | Scheduled for Q4 - timetabled for March 2019 | | |
| Grants to Community Groups (Landlord Services) | 8.00 | 5.50 | Completed | **Moderate** | **Low** |
| Licensing | 10.00 | 0.00 | Scheduled for Q4 - timetabled for | | |

| 2018/19 Audit Plan | Plan Days | Spent Days (31.12.18) | Status as at 31.12.18 | Assurance Level | Corporate Significance |
|---|---|---|---|---|---|
| | | | February 2019 | | |
| Car Parking fees | 12.00 | 0.25 | Scheduled for Q4 - timetabled for February 2019 | | |
| Enforcement (Cross cutting) | 20.00 | n/a | Outsourced – started February 2019 | | |
| Revenues & Benefits Contract | 12.00 | 9.25 | In Progress – Draft report due February 2019 | | |
| Performance Management | 10.00 | 7.50 | In Progress – Draft report due February 2019 | | |
| Staff Allowances & Expenses | 10.00 | 10.25 | Completed | **Moderate** | **Low** |
| Garden Waste Scheme | 10.00 | 11.00 | Completed | **Moderate** | **Medium** |
| Sport & Active Recreation | 10.00 | 1.00 | In Progress – draft report to be issued February 2019 | | |
| CCTV | 8.00 | 0.00 | Scheduled for Q4 | | |
| Mayoralty | 8.00 | 4.50 | Completed | **Substantial** | **Medium** |
| Holiday pay/flexi/toil policies and application. | 12.00 | 0.00 | Outsourced – started February 2019 | | |
| ASB (cross cutting use of Sentinel etc) | 9.00 | 10.00 | Completed | **Moderate** | **High** |
| Corporate Credit Cards | 10.00 | 10.00 | Completed | **Moderate** | **Medium** |
| **Sub Total – Strategic & Services Audits** | **184.00** | **71.75** | **Number of audits due in Q4 and 32 Days outsourced** | | |
| **Other Work** | | | | | |
| Recommendations - Follow Ups | 20.00 | 10.00 | On - going | | |

| 2018/19 Audit Plan | Plan Days | Spent Days (31.12.18) | Status as at 31.12.18 | Assurance Level | Corporate Significance |
|---|---|---|---|---|---|
| Ad Hoc Investigations/ Contingency | 30.00 | 7.50 | n/a | | |
| Allowance to complete 2017/18 Audits | 10.00 | 50.00 | n/a | | |
| **Sub Total – Other work** | **60.00** | **67.50** | | | |
| **TOTAL – Audit Plan (not including IT externally resourced audit)** | **300.00** | **140.50** | | | |

Appendix B

**SUMMARY OF FINAL AUDIT REPORTS ISSUED**

**Anti-social Behaviour 2018/19**

## 1. Background

Tackling anti-social behaviour is a key priority for Charnwood Borough Council. The Council has signed up to a countywide approach between community safety partners across, Leicester, Leicestershire and Rutland (LLR) called the Incremental Approach. Its aim is to ensure that anti-social behaviour enforcement measures are used consistently and proportionately in relation to an individual's involvement in anti-social behaviour.

To capture, record, manage and report incidents of anti-social behaviour a web-based, incident management system called Sentinel is currently used across LLR so that data is accessible to a range of partner organisations. However, management are aware that other systems are used within the Council, e.g. Flare and Lagan.



## 2. Executive Summary

### 2.1 Overview

| ASSURANCE RATING – MODERATE ASSURANCE | CORPORATE SIGNIFICANCE – MEDIUM |
|---|---|

***Assurance***

Internal Audit can give moderate assurance to those charged with governance. Whilst there are no serious weaknesses in the internal control environment within the areas reviewed, there is a need to further enhance controls and to improve the arrangements for managing risks.

Although Service Areas all demonstrated that they have processes in place for managing Anti-Social Behaviour (ASB) cases, there are no consistent procedures in place for identifying, recording, assessing of risk, monitoring and reporting of incidences of anti-social behaviour across all services. Discussions with each service area revealed that there are a number of different methods and systems being used. With the current processes in place a number of concerns have been identified:

- Officers may not identify the difference in the level of seriousness between general ASB and specific harassment if risk assessments are not completed.
- Without completing a risk assessment the impact of the victim/community and the victim's vulnerability is not assessed and victims may not receive the appropriate help, as cases may not be referred to the Joint Action Group.
- With there being a tendency for incidents to be closed without any record of action taken on Sentinel repeat victimisation and ASB 'hotspots' may not be identified. Partners are unaware if documents such as warning letters or acceptable behaviour contracts are being issued by the authority.

***Corporate Significance***

The area reviewed has been rated as being of high corporate significance, on the basis of:

- Service failures would have significant impact on customers
- Risk of serious reputational damage (national press/TV)
- Major health and safety risk (serious injury or death)
- Direct link to identified strategic risks



## 2.2 Key Findings

We are pleased to report that the procedures in place incorporate the following examples of good practice:

- There is a Corporate Enforcement Policy in place which makes reference to ASB.
- Most cases of ASB are initially recorded on the Customer Relationship Management System (LAGAN) which provides complainants/victims with a consistent approach and Customer Service advisors are able to see previously interactions.

However, from the work undertaken during the review, we have also identified the following areas where the mitigation of the risk could be improved:

- Risk Assessments on complainants/victims are only completed by Community Safety and Landlord Services.
- There is no Lead Officer or Lead Service Area to ensure a consistent approach is in place and being maintained.
- Different IT systems are being used across the organisation for monitoring cases and recording actions that have taken place

- Reporting lines such as the Scrutiny Management Board are not getting a complete picture as data is missing on Sentinel for some Service Areas.
- There is a general lack of understanding as to the importance of recording ASB on Sentinel, what the systems capabilities are and to what level the data being input was being used by the partnership.
- Issues were raised around the interfaces between Flare and Sentinel where manual intervention was required, resulting in a duplication of work.

## 3. Action Plan

| Observation | Risk | Recommendation | Priority | Response/Agreed Action | Officer Responsible | Action Date |
|---|---|---|---|---|---|---|
| 1.<br>Risk Assessments on complainants/victims are only completed by Community Safety and Landlord Services.<br><br>There is no Lead Officer or Lead Service Area to ensure a consistent approach is in place and being maintained.<br><br>Different IT systems are being used across the organisation for monitoring cases | The Council do not fulfil the responsibilities under the Incremental Approach and fail to be a good partner.<br><br>Repeat victims/locations are not identified.<br><br>Inappropriate action is taken due to missing or out of date information.<br><br>Decision making rationale is not appropriately | 1.1 Management nominate a lead officer(s) or service to monitor the use of Sentinel to ensure cases are appropriately recorded, all victims are risk assessed, all data is being captured and reported and cases are closed when appropriate action has been taken.<br><br>1.2 Services find a way to work together to find an appropriate process that considers services individual statutory and legislative responsibilities whilst ensuring we fulfil our responsibilities under the Incremental | High<br><br><br><br><br><br><br><br><br><br><br><br><br>High | A working group will be created. The group will produce a work programme which will look at the recommendations made following the audit and at the definition of ASB and deliberate what cases need to be recorded on Sentinel whilst considering the impact any changes may have on Corporate Information Technology.<br><br>Members of the group will be nominated by Heads of Service. | Anti-Social Behaviour Co-Ordinator | March 2019 |

| | | | | | | |
|---|---|---|---|---|---|---|
| and recording actions that have taken place.<br><br>Reporting lines such as the Scrutiny Management Board are not getting a complete picture as data is missing on Sentinel for some Service Areas. | recorded should the Authority be challenged.<br><br>Cases are not referred to Victim First or the Joint Action Group where necessary. | Approach.<br><br>1.3 Management consider whether all Environmental Health and Street Management cases need to be recorded on Sentinel or whether only persistent cases of fly-tipping, noise etc. should be recorded. | Medium | | | |
| 2. Issues were raised around the interfaces between Flare and Sentinel where manual intervention was required, resulting in a duplication of work. | Inefficient use of resources.<br><br>Information on Sentinel is inaccurate. | 2. The interfaces between systems are improved to prevent manual intervention having to be undertaken. | Medium | As for Recommendation 1. | | |
| 3. There is a general lack of understanding as to the importance of recording ASB on Sentinel, what the systems capabilities are and to what level the data being input was being used by the partnership. | Sentinel is not used due to a lack of understanding. | 3. Training is given to appropriate officers to raise awareness of the importance of data sharing and on the use of the Sentinel system. | Medium | As for Recommendation 1. | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| 4. Not all information is being reported to the Scrutiny Management Board. | Particular areas of concern/interest are not being monitored and progress is not overseen. | 4. Services put procedures in place to ensure all information (e.g. interventions undertaken during the period etc.) is reported to the Scrutiny Management Board. | Medium | As for Recommendation 1. | | |

**Corporate Credit Cards 2018/19**

## 1. Background

The Council currently holds nine Corporate Credit Cards which are available to settle accounts where payment by card is necessary or where it is deemed appropriate to pay for goods in advance of purchase. Credit limits on the cards vary between £2,500 and £10,000, with a total credit limit of £32,500 over all nine cards.

The procedure rules in respect of Credit Cards are documented in Section 20 of the Council's Financial Procedure Rules.

The processing of credit card applications and reconciliation of expenditure against VAT receipts is undertaken by Accountancy Control, within Finance and Property Services.

## 2. Executive Summary

### 2.1 Overview

| ASSURANCE RATING – MODERATE ASSURANCE | CORPORATE SIGNIFICANCE – MEDIUM |
|---|---|

***Assurance***

Internal Audit can give moderate assurance to those charged with governance. Whilst there are no serious weaknesses in the internal control environment within the areas reviewed, there is a need to further enhance controls and to improve the arrangements for managing risks.

At the time of audit there were 9 corporate credit cards in circulation. During the period April to September 2018 total expenditure incurred was £39,997.

Based on the testing undertaken during this audit it was found that there are adequate arrangements in place for the monitoring of expenditure incurred on credit cards. However, the authorisation of card applications and transactions is not considered robust as Heads of Service/budget holders are just being copied in to application and procurement requests and are not required to give formal approval.

The Council's Financial Procedure Rules refers to procurement rules in respect of credit cards however there is currently no specific corporate credit card policy/guidance in place and no expectation for card holders to sign a user acceptance policy.

***Corporate Significance***

The area being audited has been rated as being of medium corporate significance, on the basis of:

- General risk of financial loss between £10,000 and £100,000
- Suspected cases of fraud or corruption up to £10,000
- Risk of moderate reputational damage
- Direct link to identified corporate risks



## 2.2 Key Findings

We are pleased to report that the procedures in place incorporate the following examples of good practice:

- In general there are adequate arrangements in place for the monitoring of expenditure incurred on credit cards.

However, from the work undertaken during the review, we have also identified the following areas where there is scope for improvement to ensure that the system operates more effectively and efficiently:

- There is currently no specific corporate credit card policy/guidance in place and no expectation for card holders to sign a user acceptance policy.
- The procedures in place for authorising monthly expenditure and procurement categories are inadequate.
- The Head of Finance and Property Services receives no documentation to support the online card application before authorising.
- In 23% of cases VAT receipts/invoices had not been obtained in respect of purchases. Of the total value of the sample selected (£17,092.31) VAT receipts were not obtained for £3189.26 of the expenditure.

## 3. Action Plan

| Observation | Risk | Recommendation | Priority | Response/Agreed Action | Officer Responsible | Action Date |
|---|---|---|---|---|---|---|
| 1. There is currently no specific corporate credit card policy/guidance in place and no expectation for officers to sign a user acceptance policy. | Inappropriate use of Council Resources and/or financial loss to the Council. | 1. A policy is put in place which provides guidance to users, clearly defining the terms and conditions of being a card holder and clearly states the organisation's procedures regarding lost/stolen cards and misuse. All cards holders should sign the policy as their acceptance of the terms. | Medium | A policy will be written covering all the points raised in the recommendation. All of the 9 existing users will be asked to read and sign the policy as their acceptance of the terms. | Head of Finance and Property Services | September 2019 |
| 2. The procedures in place for authorising monthly expenditure and procurement categories are inadequate. | Breach in the Financial Procedure Rules.<br><br>Process is open to error and fraud. | 2. The authorisation of monthly expenditure and procurement categories is documented by the applicant completing an e-form which automatically goes to the relevant Head of Service for approval. | Medium | The set-up of an e-form will be explored. If the cost and resource required outweighs the benefit it will bring an alternative process for the Head of Service approval will be introduced. | Head of Finance and Property Services | September 2019 |
| 3. The Head of Finance and Property receives no | Process is open to error and fraud. | 3. The Head of Finance and Property receives a copy of the application e- | Medium | Agreed as per recommendation. | Head of Finance and Property | September 2019 |

| Observation | Risk | Recommendation | Priority | Response/Agreed Action | Officer Responsible | Action Date |
|---|---|---|---|---|---|---|
| documentation to support the online application before authorising. | | form to ensure that the authorised limits have been correctly input on the online HSBC application form before authorising. | | | Services | |
| 4. In 23% of cases VAT receipts/invoices had not been obtained in respect of purchases. Of the total value of the sample selected (£17,092.31) VAT receipts were not obtained for £3189.26 of the expenditure. | Breach of Financial Procedure Rules.<br><br>The Council are unable to reclaim VAT. | 4. Card holders are reminded that not obtaining VAT receipts, where appropriate, is a breach of Financial Procedure Rules and if not produced the service will be charged at gross. | Medium | Cardholders will be reminded about obtaining VAT receipts. The Financial Procedure Rules will be reviewed to see if they need clarifying and strengthening on this point as they do not state that VAT receipts must be obtained, only that they should be obtained. Also it is acknowledged that it is not always possible to get a VAT receipt so there will be cases where services are charged gross. | Head of Finance and Property Services | September 2019 |

**APPENDIX C**

**Summary of IT Audit Final Reports Issued**

## Information Technology (IT) Change Management 2017-2018

### 1. Background

Information Technology (IT) Change Management processes include the following activities in respect of planned or unplanned changes within the IT infrastructure and applications:

- Creating a request for change
- Review and prioritisation of the request for change
- Evaluation of the change to assess the impact, risk and benefit
- Approval of the change
- Implementation of a change
- Review and closure

Changes to IT infrastructure and applications are managed by the Information and Communications Service (ICS) in accordance with the IT Change Management process as set out in the Service Manager Guidance document. Requests for change are initiated by System Administrators within service areas and logged on the Hornbill Service Desk Management System.

## 2.1 Overview

| ASSURANCE RATING - SUBSTANTIAL ASSURANCE | CORPORATE SIGNIFICANCE – HIGH |
|---|---|

***Assurance***

Internal Audit can give substantial assurance to those charged with governance. The internal control environment within the areas reviewed is adequate and effective, and appropriate actions are being taken to manage risks.

Adequate governance arrangements are in place in respect of responsibilities for IT change management; processes have been established and defined; and changes require approval at the request and the post testing stages.

Based on the audit work undertaken it was determined that adequate standard procedures are in place for implementing IT changes efficiently and effectively therefore the potential risk of disruption to associated IT services and general service delivery is being managed.

***Corporate Significance***

The area reviewed has been rated as being of HIGH corporate significance, on the basis of:

- Service failures would have significant impact on customers
- Risk of serious reputational damage
- Direct link to identified strategic risks

## 2.2 Key Findings

We are pleased to report that the procedures in place incorporate the following examples of good practice:

- The roles and responsibilities in respect of Change Management have been discussed and agreed at the IT Service User Group.
- The Hornbill Service Manager User Guide covers procedures related to the key stages within the Change Management Process.
- All changes are logged on the SupportWorks Service Desk Management System, are assigned a change reference number and require authorisation by two of the three ICS Managers for them to proceed.
- For all changes an Impact Assessment and Backout Plan is documented before the change is authorised as part of the change request process.
- Once all the change activities have been completed as per the change schedule the Change Request is closed automatically. A notification email is sent to the Manager and to the requestor detailing the resolution summary.

However, from the work undertaken during the review, we have also identified the following area where there is scope for improvement to ensure that the system operates more effectively and efficiently:

- There are a number of documents in place that cover various aspects of Change Management however there is no formal Change Management Policy that consolidates the roles and responsibilities, authorisation requirements, stages in the process, documentation requirements etc. in a single document.

### 3. Action Plan

| Observation | Risk | Recommendation | Priority | Response/Agreed Action | Officer Responsible | Action Date |
|---|---|---|---|---|---|---|
| 1. There are a number of documents in place that cover various aspects of Change Management however there is no formal Change Management Policy that consolidates the roles and responsibilities, authorisation requirements, stages in the process, documentation requirements etc. in a single document. . | A lack of formal Change Management Policy capturing roles, responsibilities and required implementation stages could result in inconsistencies and inadequate governance arrangements. | 1. Consideration should be given to developing a Change Management Policy to consolidate the information found in the Infrastructure Policy, the policy aspects within the Hornbill Service Manager User Guide e.g. authorisation requirements, necessary stages to the completed before authorisation, documentation requirements, and also the roles and responsibilities for Change management as agreed at the ICT Service User Group. | Low | The recommendation has been considered and based on the current process and procedures in place it is not felt that an additional policy would be required to support this process. | N/A | N/A |

**AUDIT COMMITTEE – 26TH FEBRUARY 2019**

**Report of the Head of Strategic Support**

**Part A**

ITEM RISK MANAGEMENT (RISK REGISTER) UPDATE

Purpose of Report

The purpose of this report is to provide the Committee with details of the Strategic Risk Register produced for the period to 2019/20 and to provide an update on progress with the review of the Risk Management Framework.

Recommendation

The Committee notes the report.

Reason

To ensure the Committee is kept informed of progress against the strategic risks that should they crystallise would cause the Council to be unable to operate and/or provide key services leading to a significant adverse effect on public wellbeing.

Policy Justification and Previous Decisions

The Strategic Risk Register for the remainder of the current financial year and for 2019/20 was approved by Cabinet on the 13th December 2018. Cabinet resolved that the Audit Committee monitor progress against those risks on the register by receiving and considering monitoring reports on a quarterly basis.

Implementation Timetable including Future Decisions

Reports will continue to be submitted to the Committee on a quarterly basis.

Report Implications

The following implications have been identified for this report.

*Financial Implications*

*None*

Risk Management

There are no specific risks associated with this decision.

Background Papers: None


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**Part B**

Background

1. In accordance with the Committee's work programme the Committee receives monitoring reports in respect of the Council's risk management arrangements. The reports provide a detailed commentary against the risks included in the strategic risk register.

Risk Management Arrangements

2. The Council's risk management arrangements have been reviewed to address the recommendation made following the Local Government Association (LGA) Peer Challenge review undertaken in March 2018.

   - **Establish risk appetite and strengthen approach to risk management.** To provide stronger assurance around risk and identify a risk tolerance level that is right for Charnwood to further its commercial activities.

3. Following the risk management review, a revised Risk Management Strategy and Framework together with a proposed Strategic Risk Register to cover the period to March 2019, were presented to and approved by Cabinet at their meeting of 13th December 2018.

4. The Risk Management Strategy is a high level document that sets out the Council's strategic approach to risk management. (Appendix A).

5. The Risk Management Framework provides the detailed approach to risk management including the risk matrix and risk appetite tables for measuring the level of risk and ensuring that risks are managed within the Council's risk appetite. (Appendix B)

6. The Council has reverted from the previous three levels of risk to two levels i.e. strategic risks and operational risks. The Council's working definition of risk, to be applied to both strategic and operational risks is:

   **"Risk is something that may have an impact on the achievement of our objectives. This could be an opportunity as well as a threat.''**

7. The risk matrix has been revised to a 4x4 matrix as set out in the Risk Management Framework. Risks will continue to be measured based upon likelihood and impact; i.e. the likelihood of the risk materialising and the impact to the Council should the risk materialise to produce the overall risk rating.

9. As recommended, following the LGA Peer Challenge review, risk tolerance levels have been set to reflect the Council's 'risk appetite'. As the Council is a diverse organisation, with statutory obligations, it has been recognised that it is not appropriate to set one level of risk appetite to be applied to all identified risks. Therefore, as stated in the Risk Management Framework the Council has set the

risk appetite for four primary risk types i.e. strategic, delivery, financial and compliance. Although many risks will fall into more than one risk type it is the primary risk type i.e. the one that carries the greatest risk that will be used to manage the risk within the tolerable level.

10. The format of the Strategic Risk Register has been amended as set out in the Risk Management Framework. The revised format allows for commentary to be included as to the current status of the risk and for a risk owner to be identified who will be responsible for the management of the risk. This template will also be used at service level for operational risk registers incorporated into Team Plans).

Development of the Strategic Risk Register

11. The Strategic Risk Register was produced following consultation with the Corporate Management Team, Cabinet members and Audit Committee members.

12. In reading the Strategic Risk Register attached at Appendix C it is important to understand that the ‘Overall Score’ shown in the first risk matrix is the risk that the Council would bear if ***no*** actions were taken to mitigate the risk. In the vast majority of cases the Council is able to operate risk mitigation processes which result in the lower ‘Net Risk Score’ shown in the second risk matrix it is this latter score which represents the current assessment of strategic risks faced by the Council.

13. Ongoing work will be undertaken with Services to fully identify existing mitigating controls and actions, and to review the residual risk scores.

Appendices

Appendix 1 – Risk Management Strategy

Appendix 2 – Risk Management Framework

Appendix 3 – Strategic Risk Register 2018/19 - 2019/20, as at 31st January 2019.

Appendix A

# Risk Management Strategy

## November 2018

**Appendix A**

**Contents**

**Appendix A**

## 1. Introduction

The purpose of this document is to outline an overall approach to risk management that addresses the risks, both negative and positive, facing the Council in achieving its objectives and which will facilitate the effective recognition and management of such risks. The approach has been designed to support Members and officers in fulfilling their risk management responsibilities in a consistent manner.

Risk management will be embedded within the daily operations of the Council, from strategy and policy formulation through to business planning, general management and operational processes. It will also be applied where the Council works in partnership with other organisations to ensure that partnership risks are identified and managed appropriately.

Through understanding risks, decision-makers will be better able to evaluate the impact of a particular decision or action on the achievement of the Council's objectives.

Risk management will not focus upon risk avoidance, but on the identification and management of an acceptable level of risk. It is the Council's aim to proactively identify, understand and manage the risks inherent in our services and associated with our plans, policies and strategies, so as to support responsible, informed risk taking and as a consequence, aim to improve value for money. The Council will not support reckless risk taking.

The Council will seek to learn from other organisations where appropriate and to keep up to date with best practice in risk management.

## 2. Risk Management Objectives

The Council is committed to establishing and maintaining a consistent risk management approach throughout its decision making and operational processes.

The Council's risk management objectives are to:

- Ensure that the risks that could prevent the Council achieving its objectives are identified and appropriately managed.
- Ensure that risk management is clearly and consistently applied and evidenced throughout the Council.
- Raise awareness of the principles and benefits involved in the risk management process, and to obtain staff and Member commitment to the principles of risk management and control
- Inform policy and operational decisions through the identification of risks and their likely impact.
- Ensure compliance with statutory requirements.
- Ensure safety and wellbeing of staff, Members and customers.

These objectives will be achieved by:

- Defining clear roles, responsibilities and accountability for risk management.
- Maintaining documented risk management procedures and provision of guidance and training to Members and staff.
- Considering risk management implications in reports and decision making processes.
- Maintaining strategic and operational risk registers that identify and rank all significant risks facing the Council, which will assist the Council achieve its objectives through pro-active risk management.

## 3. Assessment

This will involve consideration of all potential risks facing the Council, with risks broken down into strategic risks, which could impact on the achievement of the Council's objectives, and operational (service) risks which could impact upon service delivery or the achievement of service objectives.

Identified risks will be assessed on the basis of the likelihood of the risk materialising and the impact to the Council should the risk materialise. This will include an assessment of both the inherent risk i.e. the level of risk prior to mitigating actions and controls being applied and the residual risk i.e. the level of risk considering the mitigating actions and controls in place. The Council's specified risk matrix will be used to score each risk.

Where the risk carries more than one risk type e.g. financial and compliance; the primary risk factor will be used to ensure the risk is managed within the Council's risk appetite.

## 4. Risk Appetite

The Council will define its risk appetite across designated risk types i.e. strategic, delivery, financial and compliance. Appropriate mitigating actions and controls will be put into place to ensure that residual risk scores are within the risk appetite for the primary risk type.

## 5. Risk Registers

The Strategic Risk Register will be approved by Cabinet annually and reviewed quarterly through the Risk Management Group.  Quarterly monitoring reports will be provided to the Audit Committee as resolved by Cabinet

Operational Risk Registers will be maintained by Heads of Service and will be reviewed at least quarterly. Where an operational risk materialises to a level where it becomes a potential strategic risk this will be escalated to the Risk Management Group for consideration.

All risks will be allocated a 'Risk Owner' who will be responsible for ensuring that the risk is appropriately managed.

## 6. Governance

There will be clear accountability for risks. This will be achieved through an annual report to Cabinet on risk management, an Annual Governance Statement signed by the Chief Executive and the Leader of the Council, and by making the Council's risks and risk management process open to regular Internal Audit and external inspection (e.g. by the Council's external auditors). The Audit Committee will be responsible for monitoring the Council's risk management arrangements.

An annual review of this Strategy will be undertaken to ensure it remains current and up to date and reflects current best practice in risk management. Recommendations will be made to the Cabinet if it is considered that any improvements or amendments are required.

Members of the Cabinet will be briefed regularly to ensure they are aware of significant risks affecting their portfolios and any improvements in controls which are proposed.

The Risk Management Group will meet regularly to ensure that risk management processes are being applied consistently, to promote risk management throughout all services and to ensure continuous improvement in risk and opportunity management.

The Internal Audit section will focus audit work on significant risks, as identified by management, and will audit the risk management process across the whole Council to provide assurance on its effectiveness.

Appendix B

# Risk Management Framework

# November 2018

**Appendix B**

**Contents**

**Appendix B**

## 1. Introduction

The purpose of the risk management framework is to define how risks and opportunities will be handled within Charnwood District Council. The framework provides information on roles and responsibilities, processes and procedures. It sets the context for the management of risks and defines how they will be identified, assessed, managed and reviewed.

The Council has a clear framework and process for identifying, assessing, managing / controlling, reviewing and reporting of its risks. The leadership, roles and responsibilities are defined for managing those risks. Some groups or individuals will have a specific leadership role or responsibility for risk management and this detail is set out in Section 2.

The Council expects all of its employees, officers and Councillors to have a level of understanding of how risks and opportunities could affect the performance of the Council and to regard the management of those risks / opportunities as part of their everyday activities. This could be the management of strategic risks (those risks that need to be taken into account when making judgements about medium and long-term goals), or operational risks that managers and staff will encounter in the daily course of their work.

The Council has a four-step process for identifying, assessing, managing and controlling and reviewing risk (See Figure 1, page 5). This is a continuous process and integrates with performance management. The Council has agreed criteria by which to judge the likelihood and impact of risks, effectiveness of control measures and required levels of management of residual risks.

## 2. Leadership, roles & responsibilities

| | |
|---|---|
| **The Cabinet** | • Approve the Council's Risk Management Strategy and Framework and Strategic Risk Register<br>• Consider risk management implications when making decisions<br>• Agree an appropriate response to the Council's highest risks<br>• Receive an annual report on risk management |
| **Audit Committee** | • To maintain an independent oversight of risk management issues<br>• To undertake reviews of specific areas of risk management activity or initiatives where required<br>• To consider the effectiveness of the implementation of the risk management strategy<br>• To review and approve the Council's Annual Governance Statement |
| **The Officer Risk Champion (Head** | • To be responsible for the oversight of the risk management activities of the Council |

| | |
|---|---|
| **of Strategic Support)** | • To provide the Cabinet and Audit Committee with assurance that the Council's corporate business risks are being actively and appropriately managed. |
| **Senior Management Team** | • To oversee the corporate approach to risk management<br>• To identify, assess and capture improved performance and value for money through risk and opportunity management<br>• To ensure that a robust framework is in place to identify, monitor and manage the Council's strategic risks and opportunities<br>• To demonstrate commitment to the embedding of risk management across the organisation |
| **Risk Management Group (Corporate Management Team)** | • To raise the awareness of risk management issues and promote a risk management culture across the organisation<br>• To create a forum for discussion and a focal point for risk management<br>• To assess strategic risks and opportunities identified by the Authority<br>• To review and keep up to date the strategic risk register<br>• To ensure that the most appropriate and cost effective measures are adopted to avoid, minimise and control those risks in accordance with 'Best Value' principles<br>• To develop good risk management practices within the Council<br>• To encourage the development of contingency plans |
| **Heads of Service** | • To identify and assess new risks and opportunities<br>• To include Risk Management as an Agenda item at team meetings<br>• To maintain the Council's operational risk registers in relation to their areas of responsibility, identifying and reporting upwards any significant risk management issues affecting their service area<br>• To ensure compliance with corporate and service risk management standards<br>• To ensure that all service deliverers (employees, volunteers, contractors and partners) are made aware of their responsibility for risk management and the mechanisms for feeding concerns into the Council's risk management process<br>• To ensure that an effective framework is in place to manage risks faced by the service<br>• To identify and analyse risks for impact and likelihood and introduce risk control measures<br>• To identify initiatives that could reduce the impact and/or likelihood of risks occurring<br>• To identify initiatives that could increase the likelihood of an opportunity being realised |

| | |
|---|---|
| | • To ensure that risk register entries and controls are accurate and up to date<br>• To monitor the progress of planned actions on a quarterly basis to ensure that aims are achieved<br>• To report quarterly to their Director on the progress of risk management action plans and any new risks identified<br>• To communicate the risk process to all staff and ensure they are aware of their responsibilities |
| **Team Risk Owners (if other than Head of Service)** | • To have responsibility for the management of risk within their area, including the implementation of action plans<br>• To include Risk Management as an Agenda item at team meetings<br>• To review each risk at least quarterly and report to the Head of Service and/or Director, identifying any changes in circumstances or factors around the risk<br>• To communicate the risk process to staff in their section and to ensure that they are aware of their responsibilities |
| **Audit & Risk Manager and Insurance Officer** | • To provide facilitation, training and support to promote an embedded proactive risk management culture throughout the Council<br>• To provide facilitation, training and support to Members<br>• To assist services in identifying, analysing and controlling the risks that they encounter<br>• To ensure that risk management records and procedures are properly maintained and that clear audit trails exist in order to ensure openness and accountability<br>• To provide risk management advice & support to Strategic Directors, Heads of Service, risk owners and service teams<br>• To develop means of best practice in risk management by reference to risk management standards and comparisons with peer authorities<br>• To address internal audit recommendations<br>• To keep SMT and the Head of Strategic Support fully briefed on the Council's top risks and any other risk issues as appropriate<br>• To liaise with internal and external audit / Insurers / Health & Safety / Emergency Planning<br>• To liaise with external consultants and risk management organisations to promote and maintain best practice within the Council<br>• To ensure the timely purchase of adequate insurance for the transfer of risk |

| | |
|---|---|
| **All Employees** | • Within their given area of responsibility and work, to have an understanding of risks and regard their management as part of their everyday activities, including the identification and reporting of risks and opportunities which could affect the Council<br>• To carry out or assist with risk assessments for their areas of work<br>• To maintain an awareness of risk and feed this into the formal management and reporting processes<br>• To support and participate in risk management activities |
| **Internal Audit** | • To independently assess the Council's risk management arrangements<br>• To review the content and scope of the risk registers<br>• To review the adequacy of procedures by departments to assess, review and respond to risks<br>• To review the effectiveness of the Council's system of internal control<br>• To consider the content of the risk registers when preparing the Annual Audit Plan |

## 3. Risk Management Process

The following four step process is fundamental to good risk management. Figure 1 below shows the four steps and the link to business objectives.

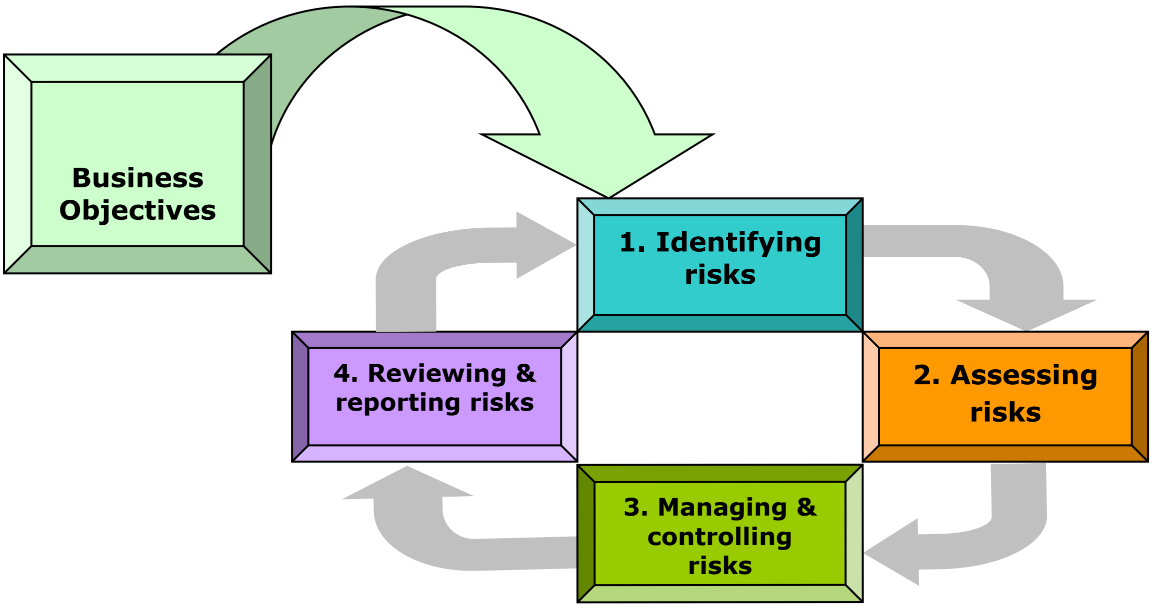



***Figure 1: The four steps of the risk management cycle***

### Step 1: Identifying Risks

Our working definition of risk is:

**Appendix B**

***"*Risk is something that may have an impact on the achievement of our objectives. This could be an opportunity as well as a threat.**

**Drivers of risk**

The Council faces risks from both internal and external factors. Understanding this helps us to assess the level of influence we may have over the risk.

There are three parts to a risk – an **event** that has a **consequence** that leads to an **impact** on our objectives - and it can be measured by estimating the ***likelihood*** of the event happening and the ***impact*** it may have on our objectives if it does.

It also helps to think of risk being driven by two basic categories, **Strategic** and **Operational.** At strategic levels, the focus is on identifying the key risks to successful achievements of the Council's overall objectives. Operational risks are the risks (or opportunities) that are most likely to affect the performance and delivery of business services.

Strategic and operational risks are not mutually exclusive and a risk may escalate from one to another. They can all be driven by either external or internal factors, or a combination of both.

**Identifying risk**

- We need to be clear what the business objectives are;
- In the risk identification stage we are concerned with identifying events that can impact on the business objectives – **'what could happen?'** We need to look at both the positive and the negative effect and so should also ask ourselves **'what could happen if we don't?'** This will help us become more confident with risk taking and exploiting opportunities. Insignificant risks can be ignored, significant risks can be planned for and the costs of taking action can be compared with the price to be paid if the adverse event occurs;
- It will help to use prompts to identify the areas of risk. Common areas are:

  - **Strategic**: doing the wrong things as an organization, missing opportunities
  - **Finance**: losing monetary resources or incurring unacceptable liabilities
  - **Reputation**: the Council's image, loss of public confidence
  - **Political**: political embarrassment, not delivering local or national policies
  - **Partnerships**: the risks/opportunities the Council is exposed to as part of a partnership
  - **Legal / Regulatory**: claims against the Council, non-compliance
  - **Operational**: doing the right things in the wrong way (service delivery failure, targets missed). Missing business opportunities
  - **Information**: loss or inaccuracy of data, systems or reported information

- **Customer/ citizens**: understanding their needs; delivery of services
- **Environmental**: things outside of our control; environmental impact
- **People**: risks associated with employees, management and Councillors.

- Using the categories above, consider the things that could prevent or hinder your team from achieving its business objectives. Try not to get too bogged down with the categories, or what risk fits under which category – they are just a general guide to aid your thinking.

- The thoughts and ideas gathered then need to be grouped into common themes and developed into the actual risk.

**Risks and issues:**

Very often issues will be raised and you will need to get to the root cause i.e. what is the risk that the issue poses? An issue is a concern that cannot be avoided or maybe ongoing, whereas a risk may not actually materialise.

***Risks can become issues, but issues cannot become risks*.**

Expressing the risks as a statement is often harder than it first seems. It may require re-thinking some basic assumptions about a situation and re-evaluating the elements that are most important. For example "lack of staff" is an issue and is not in itself a complete description. Try to externalise the issue and develop it into a risk that expresses how the issue will impact upon achievement of the Council's strategic objectives.

Try to include those three parts to your risk **Event – Consequence – Impact.**
**This will ensure that focus, and therefore action is placed on the event.**
Typical risk phrasing could be

loss of…
failure of…..
failure to...
lack of…
partnership with…
development of…

leads to …... resulting in……

For example, Environmental Services may identify the failure of the waste collection service, e.g. due to bad weather conditions, as a risk. They develop this around **event, consequence, impact** to:

**"Failure of the waste collection service due to inclement weather (the event) could lead to unacceptable delays in collecting refuse (the consequence), resulting in public health issues and loss of reputation.**

**Step 2: Assessing Risks**

## Appendix B

You will now have a list of risks. The next step is to assess those risks in terms of the likelihood that they will occur and the impact if they do. This will give us an **inherent risk** score that will help us identify the most serious risks **before any controls have been applied**. Using that information we can make decisions about the significance of those risks and how or whether we should address them.

The Council has agreed criteria for the levels of likelihood and impact for risks and criteria for opportunities, shown in tables 1 and 2 below.

Consider each of the identified risks and using the criteria in the tables below, assess the risk in terms of the **likelihood** that it will occur and **impact** on the Council if it should occur.

- **Focus on the description** when assessing the level of likelihood and impact. Use the number rating to summarise the descriptive information.

- When you have assessed both the risk likelihood and impact, multiply the likelihood score by the impact score – this will give the **Inherent** risk score. This is the score we use to identify which risks are the most serious, allowing us to make decisions about the significance of those risks to the Council and how, or whether, we should address them.

**Table 1: LIKELIHOOD - Description and definitions**

| Rating | Score | Indicative Guidelines | |
|---|---|---|---|
| | | **Threat** | **Opportunity** |
| Very Likely | 4 | • Regular occurrence<br>• Circumstances frequently encountered | Favourable outcome is likely to be achieved in short term (within 1 year) |
| Likely | 3 | • Likely to happen at some point in the next 3 years<br>• Circumstances occasionally encountered. | Reasonable prospects of favourable outcome in short term (within 1 year) |
| Unlikely | 2 | • Only likely to happen once every 3 or more years<br>• Circumstances rarely encountered | Some chance of favourable outcome in medium term (up to 3 years) |
| Remote | 1 | • Has never happened before<br>• Circumstance never encountered. | Little chance of a favourable outcome in short or medium term (up to 3 years). |

**Table 2: IMPACT - Description and definitions**

| Rating | Score | Indicative Guidelines | |
|---|---|---|---|
| | | **Threat** | **Opportunity** |
| Major | 4 | • Major loss of service for more than 5 days. | • Major improvement in service delivery. |

**Appendix B**

| Rating | Score | Indicative Guidelines | |
|---|---|---|---|
| | | **Threat** | **Opportunity** |
| | | • Severe disruption to the Council and its customers affecting the whole council.<br>• Major financial loss > £1,000,000<br>• Loss of life, intervention by HSE.<br>• National news coverage<br>• Likely successful judicial review or legal challenge of Council decision.<br>• Major environmental damage. | • Income generation/savings >£1,000,000<br>• Positive national press, national award or recognition.<br>• Noticeable widespread environmental improvements. |
| Serious | 3 | • Loss of service for 3 to 5 days.<br>• Serious disruption, ability to service customers affected across several service areas of the Council.<br>• Serious financial loss £100,000 - £999,999<br>• Extensive/multiple injuries, intervention by HSE<br>• Local adverse news item/professional press item<br>• Likely judicial review or legal challenge of service specific decision.<br>• Serious damage to local environmental. | • Noticeable improvement to customers in service delivery, quality and cost.<br>• Income generation/savings > £100,000.<br>• Sustained positive recognition and support from local press.<br>• Noticeable improvement to local environment. |
| Significant | 2 | • Loss of service for 1 – 3 days<br>• Noticeable disruption, some customers would be affected across a service area of the Council<br>• High financial loss £10,000 - £100,000<br>• Severe injury to an individual/ several people<br>• Local news/minor professional press item<br>• Moderate damage to local environment | • Slight improvement in internal business processes. No noticeable change in service delivery or customer service.<br>• Income generation/savings> £10,000<br>• Positive support from local press<br>• Minor improvement to local environment |
| Minor | 1 | • Brief disruption to service less than 1 day – minor or no loss of customer service.<br>• Low financial loss > £10,000<br>• Minor/no injuries.<br>• Minimal news/press impact.<br>• Affects single team only. | • No noticeable improvement to service delivery or internal business processes.<br>• Income generation/savings up to £10,000<br>• No press coverage |

**Appendix B**

| Rating | Score | Indicative Guidelines | |
|---|---|---|---|
| | | Threat | Opportunity |
| | | • Minor/no damage to local environment. | • Insignificant/no environmental improvements |

- Now that the inherent risk score has been calculated, we need to plot the risks on a risk prioritisation matrix to show the level of the risks and so make decisions about the significance of those risks to the Council, and how they will be managed (see figure 2 below). This is our **risk profile.**

| | | | | | |
|---|---|---|---|---|---|
| Likelihood | Very Likely (4) | 4 | 8 | 12 | 16 |
| | Likely (3) | 3 | 6 | 9 | 12 |
| | Unlikely (2) | 2 | 4 | 6 | 8 |
| | Remote (1) | 1 | 2 | 3 | 4 |
| | | Minor (1) | Significant (2) | Serious (3) | Major (4) |

| OVERALL RISK RATING | |
|---|---|
| 12 - 16 | HIGH |
| 6 - 9 | MODERATE |
| 3 – 4 | LOW |
| 1 - 2 | VERY LOW |

***Figure 2: Risk Prioritisation Matrix & Risk Rating***

- Risks need to be managed within the Council's risk appetite. Where the inherent risk score exceeds the Council's risk appetite for the type of risk, mitigating controls and actions need to be applied to manage the risk down to an acceptable level.

- Table 3 below sets out the level of risk deemed to be acceptable for the different risk types and the risk factors to consider for each risk type. Risks identified will often have risk factors that fall within more than one risk type, in these cases the risk type deemed to present the highest level of risk should be designated as the Primary Risk Type and this used to ascertain the risk appetite for the risk.

**Table 3: Risk Appetite**

**Appendix B**

| Risk Type & Definition | Risk Factors | Risk Appetite |
|---|---|---|
| Strategic – Achievement of strategic priorities. | **External Factors**<br>• Political<br>• Economic<br>• Social<br>• Partners<br><br>**Strategy**<br>• Digital Strategy<br>• Local Plan<br>• Communications Strategy<br>• Commercial Strategy<br><br>**Governance**<br>• Council Structure<br>• Council Performance<br>• Risk Appetite<br><br>**Reputational Damage**<br>• Media coverage | **Moderate** - to reflect the Council's approach in developing the local economy and creating attractive and safe environment.<br><br>In meeting the objectives relating to these elements of the Corporate Plan it is important to consider innovative service delivery and hence some risk is acceptable. |
| Delivery – day to day operation of Council services | **Corporate Plan**<br>• Delivery of objectives<br>• Delivery of business plan objectives.<br><br>**Service Delivery**<br>• Delivery of service/ team objectives.<br><br>**Project Management**<br>• Delivery of project objectives<br><br>**Staff**<br>• Recruitment & Retention<br>• Training<br>• Key Personnel<br><br>**IT**<br>• Network Infrastructure<br>• Business Applications<br>• IT Security | **Moderate** - to reflect the Council's approach in developing the local economy and creating an attractive and safe environment.<br><br>In meeting the objectives in the Corporate Plan it is important to consider innovative service delivery and hence some risk is acceptable. |

**Appendix B**

| Risk Type & Definition | Risk Factors | Risk Appetite |
|---|---|---|
| | **Resilience**<br>• Business Continuity Planning<br>• Emergency Planning<br><br>**External**<br>3rd party performance<br><br>**Reputational Damage**<br>• Media coverage<br>• Complaints | |
| Financial - financial impact or loss | **Revenues**<br>• Collection Rates<br>• Debt Recovery<br>• Commercial income generation<br><br>**Treasury Management**<br>• Debt Management<br>• Investment Strategy<br><br>**Finance**<br>• Statutory Accounts<br>• Budget Monitoring<br>• Income Generation<br>• Grants and Funding<br>• Capital Spending | **Low** –long term financial stability is an important factor to the Council in continuing to provide services and meeting Corporate Plan objectives.<br><br>Some judiciously managed risk will be accepted, but the long term future of the authority will not be jeopardised. |
| Compliance – breaches to law or regulation. | • Data Protection<br>• Health & Safety<br>• Public Health<br>• Government Regulations<br>• Constitution<br>• Regulatory Bodies<br>• Planning Inspectorate<br>• Procurement<br>• Housing | **Very Low –** as a Local Authority we lead by example and should demonstrate a high level of compliance. |

**Step 3: Managing & Controlling Risks**

- Now that the risks and opportunities have been identified and assessed for likelihood and impact and the risk appetite determined, there needs to be agreement on **who** will own the risk (and/or manage it) and **how** the risk/opportunity will be managed, controlled or exploited.

  There are three questions that will help here:
  1. Can we reduce the likelihood of occurrence?
  2. Can we reduce the impact?
  3. Can we change the consequences of the risk?

  There are four common approaches to treating risk: '**the four T's'**

  - **TOLERATING** the risk. An organisation that recognises the value of risk management may accept that it might be appropriate to continue with an 'at risk' activity because it will open up greater opportunities for the future (but not before documenting the full reasoning behind that decision). Or perhaps nothing can be done to mitigate a risk at a reasonable cost in terms of potential benefit, or the ability to do anything about a risk may be very limited.

    Where the Council decides to set these levels of acceptance is known as its **risk appetite**, e.g. the Council may tolerate a risk where:

    - The inherent risk score is within the risk appetite for the risk type
    - The risk is effectively mitigated by internal controls, even if it is a high risk
    - The risk cannot be mitigated cost effectively
    - The risk opens up greater benefits

    These risks must be monitored and contingency plans should be put in place in case the risks occur.

  - **TREATING** the risk. This is the most widely used approach. The purpose of treating a risk is to continue with the activity which gives rise to the risk, but to bring the risk to an acceptable level by taking action to control it in some way through either

    - **containment** actions (these lessen the likelihood or consequences of a risk and are applied before the risk materialises) or
    - **contingency** actions (these are put into action after the risk has happened, thus reducing the impact. These **<u>must</u>** be pre-planned)

  - **TERMINATING** the risk – doing things differently and therefore removing the risk. This is particularly important in terms of project risk, but is often severely limited in terms of the strategic risks of an organisation.

  - **TRANSFERRING** some aspects of the risk to a third party, e.g. via insurance, or by paying a third party to take the risk in another way. This option is particularly good for mitigating financial risks, or risks to assets, e.g. transferring a risk may be considered to reduce the exposure of the Council, or because another organisation is more capable of effectively managing the risk. However it is a limited option – very few strategic risks are insurable and only around 15 -20% of operational risks can be insured against.

**When risk management is embedded, we become more confident risk takers and a <u>fifth</u> option is open to us:**

- **TAKING THE OPPORTUNITY:** This is not an alternative to any of the above, rather it is an option to be considered whenever tolerating, treating, or transferring a risk. There are two aspects to this:
    - The first is whether or not at the same time as mitigating a threat an opportunity arises where a positive impact can be exploited. For example, if a large sum of capital funding is to be put at risk in a major project, are the relevant controls judged to be good enough to justify increasing the sum of money at stake to gain even greater advantages?
    - The second is whether or not circumstances arise which, whilst not generating threats, offer positive opportunities, e.g. lowering the cost of providing goods or services may free up resources that can be re-deployed.

- Try to establish the cost of your planned actions. Remember, the cost of management and control of the risk should be proportionate to the risk that is being addressed. Some measures may be relatively easy to address, others might have to be implemented in phases. If you have identified risk treatment that falls outside your immediate area of influence, this should be referred to the Risk Management Group so that they can help to co-ordinate control measures between services.

- Identify existing controls / action plans. Develop new controls / action plans where none exist. Refer to the Risk Management Group where assistance is required with co-ordination of controls outside of your own immediate area. When drawing up control measures, it is good practice to consider whether you can identify any early warning signs or triggers that will tell you it is time to put contingency plans in place. (Looking at your performance measures might help).

- Identify and agree who will own the risk and who will manage it (this may be the same person). The risk owner should have delegated authority to implement and manage the controls.

- Using the guidelines in the risk prioritisation matrix, agree how the risk will be managed (i.e. which of the 4 T's?).

- When the existing controls and action plans have been identified, the risk can be re-assessed for likelihood and impact. The new score is the **residual risk**, i.e. that which exists after controls have been applied and so the **real** level of risk to the Council. The residual risk score must be within the Council's **risk appetite** for the primary risk type relative to the risk.

**Step 4: Recording & Reviewing Risks**

## Appendix B

### *Recording Risks*

Risks should be recorded on a risk register. The risk register template is appended at Appendix A to this framework.

The Council maintains two levels of risk register i.e. the Strategic Risk Register and Operational Risk Registers.

The Strategic risk Register is monitored by the Risk Management Group and quarterly updates provided to the Audit Committee.

Operational Risk Registers are maintained and monitored at service level.

### *Reviewing Risks*

Circumstances and business priorities can, and do, change, and therefore risks, opportunities and their circumstances need to be regularly reviewed. Some risks will move down the priority rating, some may leave, and new risks will be identified.

As part of the Council's risk management framework, risk owners are required to review their risks at least quarterly. Any new very high risks, or the escalation of existing risks, should be reported to the Head of Service immediately.

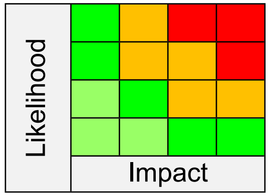
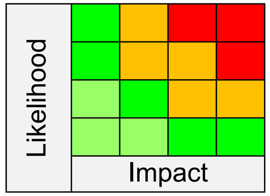
Risk management should be included as an item on the agenda of all service management and team meetings.

The risk management framework (the four steps of risk management) is a continuous cycle designed not only to identify, assess, manage and review risks, assess but also to support your business objectives. You should review the risk identification process when drawing up your annual team service plan so that the risks and opportunities link directly to your business objectives. That way, risks and opportunities are directly linked to the achievement of the business objectives, which can then be prioritised using that information.

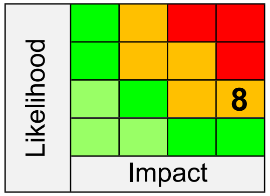
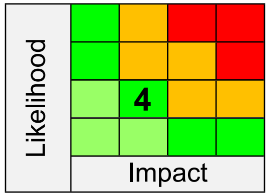
**Appendix B**

**Appendix A**

**Risk Management Framework - Risk Register Template**

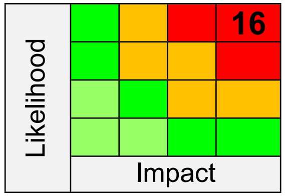
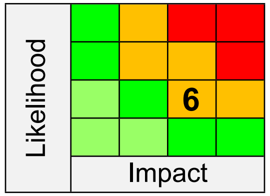
<table>
<tr><th>Risk Code and Title</th><th>Primary Risk Type</th><th>Potential Consequences</th><th colspan="2">Inherent Risk Matrix</th><th colspan="2">Residual (Current) Risk Matrix</th><th>Direction of Travel</th></tr>
<tr><td></td><td>Strategic/ Delivery/ Financial/ Compliance</td><td></td><td colspan="2"></td><td colspan="2"></td><td>MAINTAIN AS CURRENT</td></tr>
<tr><td>Current Treatments and Controls</td><td colspan="7"></td></tr>
<tr><td>Planned Future Actions and Responsible Officer(s).</td><td colspan="3"><u>Description</u>:</td><td colspan="2"><u>Responsible Officer</u>:</td><td colspan="2"><u>Target Date</u>:</td></tr>
</table>

**Appendix C**

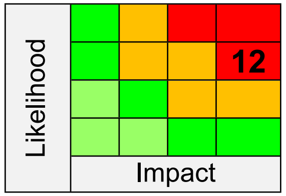
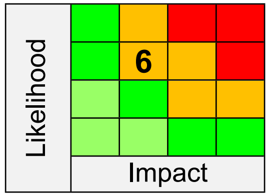
<table>
<tr><th>Risk Code and Title</th><th>Primary Risk Type</th><th>Potential Consequences</th><th>Inherent Risk Matrix</th><th>Residual (Current) Risk Matrix</th><th>Direction of Travel</th></tr>
<tr><td>SR1 Inadequate business continuity and recovery arrangements, resulting in major internal and/or external disruption to services in the event of an incident.</td><td>Strategic</td><td><ul><li>Inability to deliver key/critical services e.g.benefits, refuse collection, homelessness applications, emergency repairs.</li><li>Reduction in access channels available to residents / customers i.e. contact centre, customer services, telephony</li></ul></td><td>
</td><td>
</td><td>MAINTAIN AS CURRENT</td></tr>
<tr><td>Current Treatments and Controls</td><td colspan="5"><ul><li>Business Continuity Planning</li><li>IT Disaster Recovery Plan</li><li>Website hosted externally</li><li>Off-site data back-up arrangements</li><li>Stand-by generator for ICS building</li><li>Cloud based telephony infrastructure</li><li>Contingency planning for failure of major contractor</li><li>On – going testing</li></ul></td></tr>
<tr><td>Risk Owner</td><td colspan="5">Strategic Director of Corporate Services</td></tr>
<tr><td>Planned Future Actions and Responsible Officer(s).</td><td colspan="3"><u>Description</u>:<br>Business Continuity Plans currently being reviewed and updated with assistance from the County Council’s business continuity team</td><td><u>Responsible Officer</u>:<br>Head of Strategic Support</td><td><u>Target Date</u>:<br>Complete</td></tr>
</table>

**Appendix C**

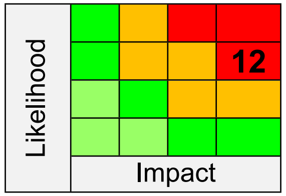
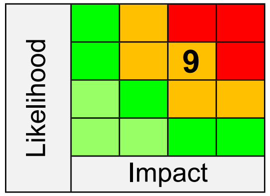
| | | | |
|---|---|---|---|
| | Disaster Recovery testing to be undertaken during 2019/20 | Head of Customer Experience | December 2019 |

| Risk Code and Title | Primary Risk Type | Potential Consequences | Inherent Risk Matrix | Residual (Current) Risk Matrix | Direction of Travel |
|---|---|---|---|---|---|
| **SR2** Inadequate data sharing and data security arrangements. | Strategic | • Ineffective processes for sharing data with other agencies / authorities leading to data breaches<br>• Major reputational damage and loss of public confidence<br>• Potentially significant fines |  |  | MAINTAIN AS CURRENT |
| **Current Treatments and Controls** | • Information sharing agreements in place with key agencies and authorities<br>• Annual IT health checks including penetration testing<br>• Data Protection Officer in post<br>• Data protection training and awareness for staff and councillors<br>• IT security policies in place<br>• IT Policies are reviewed on a regular basis | | | | |
| **Risk Owner** | Strategic Director of Corporate Services | | | | |
| **Planned Future Actions and Responsible Officer(s).** | Description:<br>Not Applicable | | Responsible Officer:<br>N/A | Target Date:<br>N/A | |

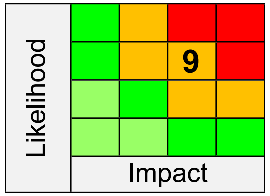
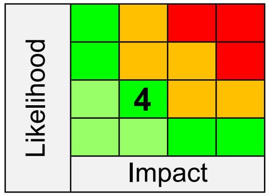
**Appendix C**

| Risk Code and Title | Primary Risk Type | Potential Consequences | Inherent Risk Matrix | Residual (Current) Risk Matrix | Direction of Travel |
|---|---|---|---|---|---|
| **SR3** Inadequate civil contingency arrangements resulting in failure to respond appropriately to a major incident (eg. flooding, terrorism etc). | Strategic | • Inability to respond to affected peoples' basic needs (food, shelter etc)<br>• Adverse effect on the local economy<br>• Major reputational damage and loss of public confidence<br>• Extending the recovery phase longer than necessary |  |  | MAINTAIN AS CURRENT |
| **Current Treatments and Controls** | • Participation in the Local Resilience Partnership and Forum (LRP and LRF)<br>• Appropriate emergency and incident planning in place<br>• Regular Testing and exercising of emergency plans<br>• Training and awareness for relevant staff<br>• 24/7 call-out arrangements for senior managers (SMT / CMT)<br>• Participation in county-wide Events Safety Group (SAG)<br>• Reviews periodically undertaken within current Treatments and Controls | | | | |
| **Risk Owner** | Chief Executive | | | | |
| **Planned Future Actions and Responsible Officer(s).** | Description:<br>Not Applicable | | Responsible Officer:<br>N/A | Target Date:<br>N/A | |

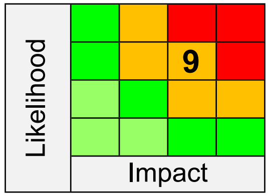
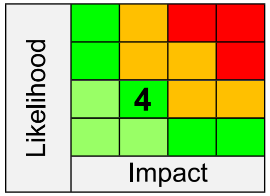
**Appendix C**

| Risk Code and Title | Primary Risk Type | Potential Consequences | Inherent Risk Matrix | Residual (Current) Risk Matrix | Direction of Travel |
|---|---|---|---|---|---|
| **SR4** Significant reduction in external funding and/or income generated leading to a reduction in the financial resources available for service provision and/or to fund corporate objectives. | Strategic | • Inability to meet demand for services<br>• Inability to meet statutory duties<br>• Ceasing or reducing some services |  |  | MAINTAIN AS CURRENT |
| **Current Treatments and Controls** | • Annual production and monitoring of Medium Term Financial Strategy (MTFS)<br>• Treasury Management Strategy<br>• Budget and revenue monitoring processes<br>• Business continuity planning<br>• Production and monitoring of efficiency plan<br>• Maintenance of reserves at specified required levels<br>• Monitor, consider and respond to government proposals affecting budgets and/or income | | | | |
| **Risk Owner** | Strategic Director of Corporate Services | | | | |
| **Planned Future Actions and Responsible Officer(s).** | Description:<br>Not Applicable | | Responsible Officer:<br>N/A | Target Date:<br>N/A | |

**Appendix C**

| Risk Code and Title | Primary Risk Type | Potential Consequences | Inherent Risk Matrix | Residual (Current) Risk Matrix | Direction of Travel |
|---|---|---|---|---|---|
| **SR5** Failure to maintain adequate risk management arrangements and processes, including monitoring risks at operational level and escalating these where required. | Strategic | • Adverse impact on service delivery<br>• Reputational damage |  |  | MAINTAIN AS CURRENT |
| **Current Treatments and Controls** | • Approved risk management framework in place<br>• Identification and regular monitoring of strategic and operational risks<br>• Quarterly meetings of Risk Management Group to monitor risks, insurance claims, health & safety incidents, and data breaches<br>• Monitoring of strategic risks by the Audit Committee<br>• Escalation processes in place (strategic risks to Cabinet, operational risks to Risk Management Group) | | | | |
| **Risk Owner** | Chief Executive | | | | |
| **Planned Future Actions and Responsible Officer(s).** | <u>Description</u>:<br>Not Applicable | | <u>Responsible Officer</u>:<br>N/A | <u>Target Date</u>:<br>N/A | |

**Appendix C**

| Risk Code and Title | Primary Risk Type | Potential Consequences | Inherent Risk Matrix | Residual (Current) Risk Matrix | Direction of Travel |
|---|---|---|---|---|---|
| **SR6** Ineffective strategic communication arrangements | Strategic | • Reputational damage<br>• Adverse media coverage<br>• Damage to relationships with partners<br>• Damage to staff morale |  |  | MAINTAIN AS CURRENT |
| **Current Treatments and Controls** | • Adequately staffed and experienced corporate communications team<br>• Corporate Communications Plan in place<br>• Regular monitoring of all media sources<br>• Continue to expand on social media use and reach<br>• 'Horizon scanning' for potential communication issues at each Corporate Management Team meeting<br>• External review/appraisal of Communications undertaken by Local Government Association | | | | |
| **Risk Owner** | Chief Executive | | | | |
| **Planned Future Actions and Responsible Officer(s).** | Description:<br>Not Applicable | | Responsible Officer:<br>N/A | Target Date:<br>N/A | |

**AUDIT COMMITTEE – 26TH FEBRUARY 2019**

**Report of the Head of Strategic Support**

**Part A**

ITEM COUNCIL'S USE OF REGULATORY OF INVESTIGATORY POWERS ACT (RIPA)

## Purpose of Report

The purpose of this report is to provide the Committee with a summary of the Council's use of RIPA powers.

## Recommendation

The Committee notes that there has been no use of RIPA powers by the Council for the period from 1st November 2018 to 31st January 2019.

## Reason

To enable the Committee to comply with the request from Cabinet that the Audit Committee assumes responsibility for receiving a quarterly report on the use of RIPA, and to report to Cabinet any concerns arising from those reports that may indicate that the use of RIPA is not consistent with the Policy or that the Policy may not be fit for purpose.

## Policy Justification and Previous Decisions

The use of RIPA to conduct covert surveillance in appropriate instances supports many of the Council's enforcement and anti-fraud policies. The Home Office Code of Practice, which relevant bodies are obliged to follow when using RIPA, requires that elected Members should consider reports on the use of RIPA on at least a quarterly basis to ensure that is it being used consistently with the policy and the policy remains fit for purpose.

## Implementation Timetable including Future Decisions

Reports will continue to be submitted to the Committee on a quarterly basis.

## Report Implications

The following implications have been identified for this report.

*Financial Implications*

None.

*Risk Management*

The risks associated with the decision the Committee is asked to make and proposed actions to mitigate those risks are set out in the table below.

| Risk Identified | Likelihood | Impact | Risk Management Actions Planned |
|---|---|---|---|
| Failure to follow RIPA requirements could lead to inadmissible evidence in enforcement or other criminal cases, leading to reputational damage for the Council. | Unlikely | Significant | Annual approval of an appropriate RIPA policy and ongoing monitoring by elected Members.<br>Training for relevant officers.<br>Ongoing oversight of RIPA arrangements by the 'RIPA Monitoring Officer'. |

Background Papers: Home Office Code of Practice – Covert Surveillance &Property Interference (2014)

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**Part B**

## Background

1. RIPA provides for the authorisation of covert surveillance by the Council where that surveillance is likely to result in the obtaining of private information about a person.

2. Surveillance includes monitoring, observing or listening to persons, their movements, conversations or other activities and communications. Surveillance is covert if it is carried out in a manner calculated to ensure that any persons who are subject to the surveillance are unaware that it is or may be taking place.

3. The Council only has the power to authorise covert surveillance under RIPA for the purpose of preventing or detecting crime, or of preventing disorder. Since 1st November 2012, RIPA applications are required to be approved by a Justice of the Peace (JP) at the Magistrates' Court in addition to the existing application and authorisation process. The amendments in the Protection of Freedoms Act 2012 mean that local authority authorisations and notices under RIPA for the use of particular covert investigation techniques can only be given effect once an order approving the authorisation or notice has been granted by a Justice of the Peace (JP)

4. At its meeting on 14th February 2019 and in order to meet the requirements of the current Home Office Code of Practice, Cabinet will be recommended to resolve that the Audit Committee continue to assume responsibility for receiving a quarterly report on the use of RIPA, and to report to Cabinet any concerns arising from those reports that may indicate that the use of RIPA is not consistent with the Policy or that the Policy may not be fit for purpose. If the resolution is made, this Committee will continue to receive a regular report on the Council's use of RIPA powers.

5. During the period from 1st November 2018 to the 31st January 2019 the Council made no use of RIPA powers.

6. During the same period, there were no requests received from the Police for the use of the Council's CCTV system for RIPA purposes.

7. The Committee has the option to report to Cabinet any concerns arising from RIPA monitoring reports that may indicate that the use of RIPA is not consistent with the Council's RIPA Policy or that the Policy may not be fit for purpose.

**AUDIT COMMITTEE – 26TH FEBRUARY 2019**

**Report of the Head of Strategic Support**

# WORK PROGRAMME

## Purpose of Report

This report is submitted to enable the Committee to consider its Work Programme.

## Action Requested

Following consideration of the Work Programme, the Committee is asked to consider any deletions, additions or amendments it wishes to make.

This will enable planning for future meetings to be undertaken, for reports and information to be prepared and for the attendance of officers and/or others to be arranged.

## Background

The Work Programme agreed at the last meeting of the Committee is attached as an appendix for the consideration of the Committee.

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APPENDIX

| ISSUE | MEETING |
|---|---|
| **Internal Audit Business** | Ongoing |
| Internal Audit Plan – Progress | 11th June 2019<br><br>Quarterly |
| Risk Management<br>(Risk Register) | 11th June 2019<br><br>Quarterly - detailed report every six months, exception report quarters in-between. |
| Council's Use of Regulation of Investigatory Powers Act (RIPA) | 11th June 2019<br><br>Quarterly |
| Annual IT Health Check (Code of Connection)<br>***Confidential Report*** | 11th June 2019<br><br>Annually |
| 2018/19 Annual Internal Audit Report | 11th June 2019<br><br>Annually |
| 2018/19 Review of the effectiveness of Internal Audit (Feedback from Panel) | 11th June 2019<br><br>Annually |
| Internal Audit Charter | 11th June 2019<br><br>Annually (for approval) |
| 2018/19 Members' Allowances Claimed | 11th June 2019<br><br>Annually |
| Whistle Blowing and Anti-fraud, Corruption and Bribery | 11th June 2019<br><br>Annually |
| Environmental Audits – Report on Outcomes | 11th June 2019<br><br>Annually<br><br>*Note: Six month exception report where identified actions are not implemented by the target date.* |
| 2018/19 Treasury Management Outturn | 11th June 2019<br><br>Annually |
| 2018/19 Statement of Accounts | July 2019<br>(Accounts Meeting)<br><br>Annually |
| 2018/19 Annual Governance Statement and Review of the Code of Corporate Governance | July 2019<br>(Accounts Meeting)<br><br>Annually |
| Treasury Management Mid-Year | November 2019 |

| | |
|---|---|
| Review | Annually |
| 2019/20 Treasury Management Statement, Annual Investment Strategy and MRP Strategy | February 2020<br><br>Annually |
| 2020/21 Internal Audit Plan | February 2020<br><br>Annually |
| Future of Local Public Audit | Report on Government proposals considered 5th July 2011.<br>Further report once final regulations/guidelines are known.<br>Note:<br>Appointing Your External Auditor briefing note considered June 2016. |
| Policy for Engagement of External Auditors for non-audit work | Considered March 2013.<br><br>Review policy - date to be agreed |
| **External Audit Business** | Ongoing |
| External Audit Progress Report and Technical Update | 11th June 2019<br><br>Quarterly |
| 2019/20 Annual Governance Report | July 2019<br>(Accounts Meeting)<br><br>Annually |
| 2018/19 Annual Audit Letter | February 2020<br><br>Annually |
| Certification of Claims and Returns (2019/20 Audit) | February 2020<br><br>Annually |
| 2020/21 External Audit Plan | February 2020<br><br>Annually |