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Charnwood

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: Councillors Angell (Chair), Bolton, S. Bradshaw, Charles, Hadji-Nikolaou, C. Harris and Parsons (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 Council Offices on Wednesday, 11th March 2020 at 6.00 pm for the following business.

Chief Executive

Southfields
Loughborough

3rd March 2020

AGENDA

1. APOLOGIES

2. MINUTES FROM THE PREVIOUS MEETING 3 - 11

   The Committee is asked to confirm as a correct record the minutes of the meeting of the Committee held on 19th November 2019.

3. DISCLOSURES OF PECUNIARY AND PERSONAL INTEREST

4. QUESTIONS UNDER OTHER COMMITTEE PROCEDURES 12.8

No questions were submitted.

AUDIT COMMITTEE
19TH NOVEMBER 2019

PRESENT: The Chair (Angell)
The Vice Chair (Councillor Bolton)
Councillors Bolton, S. Bradshaw, Charles, Hadji-Nikolaou, C. Harris and Parsons

Head of Strategic Support
Strategic Director of Corporate Services
Sustainability Officer
Team Leader Natural & Built Environment
Head of Customer Experience
Information Technology Delivery Manager
Internal Auditor
Democratic Services Officer (SW)

M Surridge – External Auditor

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.

72. MINUTES FROM THE PREVIOUS MEETING

The minutes of the meeting of the Audit Committee held on 24th July 2019 were confirmed as a correct record and signed.

73. DISCLOSURES OF PECUNIARY AND PERSONAL INTEREST

No disclosures were made.

74. QUESTIONS UNDER OTHER COMMITTEE PROCEDURES 12.8

No questions had been submitted.

75. EXTERNAL AUDITORS - ANNUAL AUDIT LETTER 2019

A report of the External Auditors setting out the Annual Audit Letter for 2018/19 (item 5 on the agenda with these minutes).

Mark Surridge, representing the External Auditors, attended the meeting to assist the Committee with the consideration of this item.

The Committee was advised that;

i. Meetings between the External Auditors and relevant Council Officers would commence in January 2020, following preliminary research undertaken by the External Auditors

ii. The pensions liability increase of £4 million was an accounting adjustment as opposed to a cash adjustment. The Council had not been required to identify additional funding to support the pension fund. This had affected each Local Authority and was considered to be reasonable. There was a tri-annual review of pension fund liability and assurance of pension fund value was given by the external Pension Fund Auditor

iii. Lease accounting was the process which Public Sector leasing was due to adopt. Accounting standards would require organisations to financially assess liability, but this was an accounting change and would not affect the general fund.

RESOLVED that the report be noted.

Reason

To acknowledge the Committee's consideration of the item.

76. ENVIRONMENTAL AUDIT OUTCOMES - PROGRESS UPDATE

A report of the Head of Planning and Regeneration was submitted updating the Committee on progress made against action identified in environmental audits undertaken for March 2019 (item 6 on the agenda filed with these minutes).

The Sustainability Officer and Natural and Built Environment Team Leader attended the meeting to assist the Committee with the consideration of this item and

RESOLVED

1. that authorisation from Severn Trent Water for the Council to discharge trade effluent at the Ark Business Centre, as referred to in the report, be followed up.

2. that the report be noted.

Reason

1. to assure the Committee that the issue was being dealt with in a timely manner.

2. to acknowledge the Committee's consideration of this matter.

77. AGENDA VARIANCE

RESOLVED that item 13 (exempt) on the agenda be considered prior to the remaining items.

Reason

So that the Officers attending for item 13 did not need to attend the meeting any longer than necessary.

78. EXEMPT INFORMATION

It was resolved that members of the public be excluded from the meeting during the consideration of the item on the grounds that it involved the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972, and the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

At this point in the meeting the sound recording was switched off and members of the public were excluded.

79. ANNUAL IT HEALTH CHECK (CODE OF CONNECTION)

An exempt report of the Head of Customer Experience was submitted to provide assurances to the Committee on the security of the Council's network (item 13 on the agenda filed with these minutes).

The Head of Customer Experience and the Information Technology Delivery Manager attended the meeting and assisted with consideration of the item.

A summary of the Group's discussion on this matter is provided in the exempt minute (Audit Committee 79E 2019/20).

RESOLVED that the report be noted along with the actions undertaken to comply with the ITHC recommendations.

Reason

To acknowledge the Committee's consideration of this item and to ensure the Committee is kept up to date with the Council's progress.

At this point in the meeting the sound recording was switched on and the public were readmitted to the meeting following the consideration of the above item.

80. TREASURY MANAGEMENT - MID YEAR REVIEW

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 six months of 2019/20 (item 7 on the agenda filed with these minutes).

The Strategic Director of Corporate Services, Governance and Procurement attended the meeting and assisted with the consideration of the report.

The Committee was advised that:

i. The decision had not yet been made regarding the percentage of funding the Council would borrow for the purchase of fleet for the Environmental Services Contract, priced at approximately £5 million. The proposed borrowing of £5 million in order to potentially fund the purchase of fleet would be a safety net. If the borrowed funds were not utilised for purchase of the fleet, the Council would not reallocate funds without Cabinet and Full Council approval and there were controls over the use of borrowing.

ii. It was common for a Local Authority to have a borrowing limit that was in excess of the need and Councils were not permitted to borrow in advance of need.

iii. There had been no borrowing for the general fund as the Council had financed its Capital Programme using capital receipts and surplus reserves in the revenue fund. However, external resources could potentially be required for future spending.

iv. Capital expenditure was presented to the Committee in month six based upon actual spending and invoicing. This did not provide the best indication of spending, as there were various costs incurred in month seven. The profiling of the capital spend was being reviewed internally and a new Capital Plan would be presented with revised presentation of data.

v. The £216k investment interest figure at six months was performing in line with expectations.

RESOLVED

1. that amendments be made to the report under 4.4 Limits to Borrowing Activity, in which the authorised limit for external debt is displayed in thousands as opposed to millions.

2. that a brief update on the Treasury Management be considered by the Committee at its meeting in February 2020.

3. that a report be received by the Committee on the External Properties Funds, including information on the Fund's interest rate, at its meeting in February 2020.

4. 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.

<u>Reasons</u>

1. to ensure that the figures in the report are accurate.

2. to ensure the Committee receives accurate data on expenditure following the costs incurred in month seven, providing a more accurate indication of capital expenditure across the year.

3. to ensure the Committee receives information on the interest rate earned by the Council's External Property Fund's investments, and what the proportion of the £216k investment rate figure at six months was from this fund.

4. to confirm that the Committee had considered and noted the report.

81. INTERNAL AUDIT PLAN - PROGRESS

Councillor Hadji-Nikolaou left the meeting at 7pm.

A report of the Head of Strategic Support was considered summarising the summarising the progress made against outstanding audits for 2018/19 Audit Plan and progress in respect of the 2019/20 Audit Plan (item 8 on the agenda filed with these minutes).

The Head of Strategic Support and the Internal Auditor attended the meeting and assisted with consideration of the report.

The Committee was advised that:

i. The recruitment process undertaken by North West Leicestershire Council of the Senior Auditor post had initially been through a national local government employment database. During the second recruitment phase, it was proposed that a specialist Auditing recruitment database be used. The position was being offered at a Principal Officer grade, but the recruitment of experienced Auditors was difficult.

ii. The resilience measure of a shared internal audit service would have provided an opportunity for the Council to overcome issues relating to incomplete workloads, but this was now unlikely to commence until April 2020 at the earliest.

iii. The effectiveness of the overall control environment is assessed by the External Auditors as an indicator of the underlying risk assessment. The Committee would benefit from:

- receiving information prior to reviewing the 2019/20 Annual Governance Statement, focussing on the defence and assurance framework within the Council. This would look at key areas of risk, Management assurance and independent assurances.

- reviewing the audit plan and assessing whether the shared Internal Audit service was the most appropriate option for the Council.

RESOLVED

1. that Members of the Committee escalate their concerns relating to the internal audit service to Cabinet for consideration through the Chair and Vice Chair.

2. that information on internal audit outsourcing costs be supplied to the Committee.

3. that the report be noted.

Reasons

1. to ensure the Council's internal audit process is undertaken properly and in a timely manner, and so that Cabinet could decide the most appropriate way to increase resilience of the Council's internal audit function.

2. in order for the Committee, in consultation with the Cabinet, to make an informed decision on the most appropriate way to increase resilience of the Council's internal audit function.

3. to acknowledge the Committee's consideration of the item and to ensure that the Committee is kept informed of progress against the approved Internal Audit Plans.

82. RISK MANAGEMENT (RISK REGISTER) UPDATE

A report of the Head of Strategic Support was submitted providing the Committee with an update on the Strategic Risk Register produced for the period 2019/20 (item 9 in the agenda filed with these minutes).

The Head of Strategic Support attended the meeting and assisted with consideration of the item.

RESOLVED

1. that a mitigation be noted for Strategic Risk 4 regarding funding streams dissolving following the development of the Commercialisation Strategy.

2. that the report be noted.

Reasons

1. to ensure that potential risks are recorded and considered to minimise the impact of the risk.

2. 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.

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

A report of the Head of Strategic Support was submitted providing the Committee with a summary of the Council's use of RIPA powers (item 10 on the agenda filed with these minutes).

The Head of Strategic Support attended the meeting and assisted with consideration of the report.

The Committee was advised that in the event that an external organisation requested use of the Council's CCTV systems, evidence of a RIPA would need to be supplied to the Council's CCTV Control Room Manager.

RESOLVED that it be noted that there had been no use of RIPA powers by the Council for the period from 1st May 2019 to 31st October 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.

84. WORK PROGRAMME

A report of the Head of Strategic Support was submitted to enable the Committee to consider its work programme (item 11 on the agenda filed with these minutes).

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	18th February 2020 Quarterly
Risk Management (Risk Register)	18th February 2020 Quarterly - detailed report every six months, exception report quarters in-between.
Council's Use of Regulation of Investigatory Powers Act (RIPA)	18th February 2020 Quarterly
2019/20 Treasury Management Statement, Annual Investment Strategy and MRP Strategy	18th February 2020 Annually
2020/21 Internal Audit Plan	18th February 2020 Annually
2019/20 Treasury Management	18th February 2020

Update	
External Properties Fund – Interest	18th February 2020
2019/20 Annual Internal Audit Report	9th June 2020 Annually
2019/20 Review of the effectiveness of Internal Audit (Feedback from Panel)	9th June 2020 Annually
Internal Audit Charter	9th June 2020 Annually (for approval)
2019/20 Members' Allowances Claimed	9th June 2020 Annually
Whistle Blowing and Anti-fraud, Corruption and Bribery	9th June 2020 Annually
Environmental Audits – Report on Outcomes	9th June 2020 Annually Note: Six month exception report where identified actions are not implemented by the target date.
2019/20 Treasury Management Outturn	9th June 2020 Annually
2019/20 Statement of Accounts	28th July 2020 (Accounts Meeting) Annually
2019/20 Annual Governance Statement and Review of the Code of Corporate Governance	28th July 2020 (Accounts Meeting) Annually
Environmental Audits Outcomes – Progress update	22nd September 2020
Annual IT Health Check (Code of Connection) Confidential Report	22nd September 2020 Annually
Treasury Management Mid-Year Review	22nd December 2020 Annually
Future of Local Public Audit	Report on Government proposals considered 5th July 2011. Further report once final regulations/guidelines are known. Note: Appointing Your External Auditor briefing note considered June 2016.

. Policy for Engagement of External Auditors for non-audit work	Considered March 2013. Review policy - date to be agreed
External Audit Business	Ongoing
External Audit Progress Report and Technical Update	18th February 2020 Quarterly
2019/20 Annual Audit Letter	18th February 2020 Annually
Certification of Claims and Returns (2019/20 Audit)	18th February 2020 Annually
2020/21 External Audit Plan	18th February 2020 Annually
2019/20 Annual Governance Report	28th July 2020 (Accounts Meeting) Annually

NOTES:

1. No reference may be made to these minutes at the Council meeting on 20th January 2020 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 2020

MAZARS

CONTENTS

Mazars LLP
45 Church Street
Birmingham
B3 2RT

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

04 February 2020

Dear Sirs / Madams

Audit Strategy Memorandum – Year ending 31 March 2020

We are pleased to present our Audit Strategy Memorandum for Charnwood Borough Council for the year ending 31 March 2020.

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

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 2020. 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 2020.

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

Victoria Gittings
Manager

E-Mail: victoria.gittings@mazars.co.uk
Tel: 07584 183 931

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.

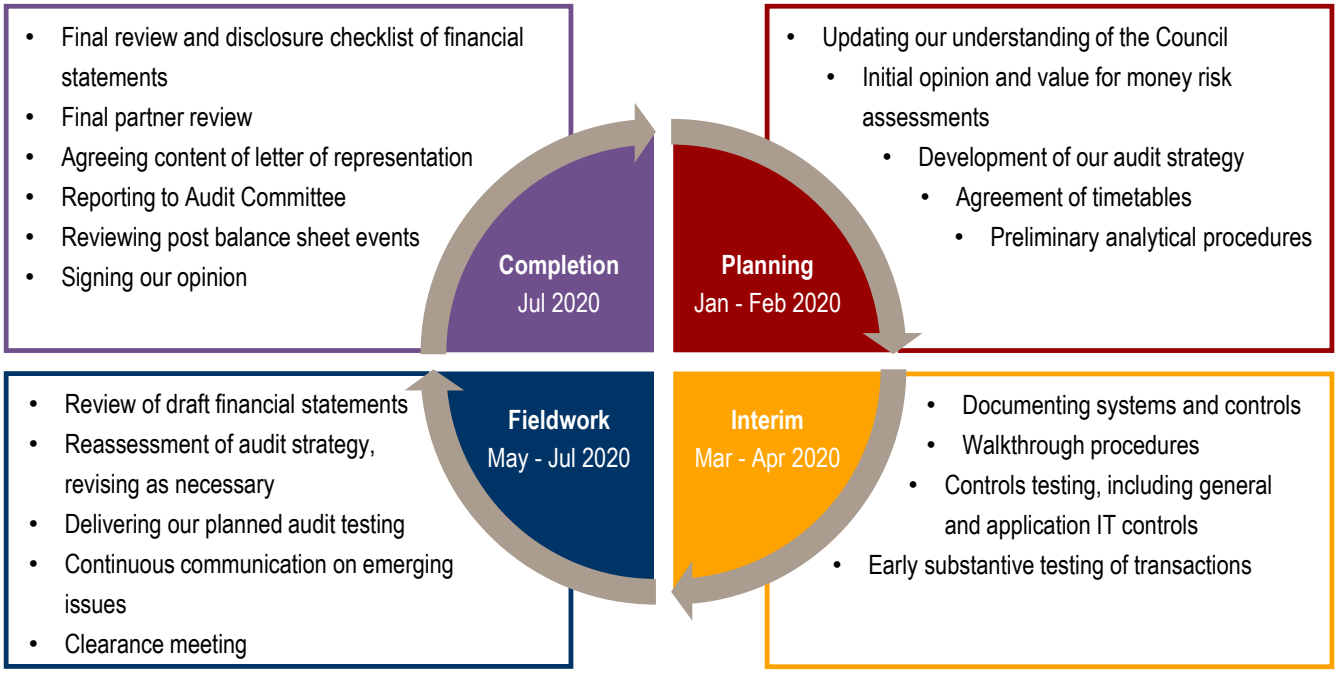
Audit approach

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.



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 *Actuary for Leicestershire Pension Fund*	PWC *Consulting actuary appointed by the NAO*
Property, plant and equipment valuation	Wilks, Head and Eve *External valuation specialist*	Not applicable
Financial instrument disclosures	Link Asset Services *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) Net interest on defined benefit liability Re-measurements of the net defined benefit liability (OCI) Net pension liability	Leicestershire Pension Fund *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. 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.

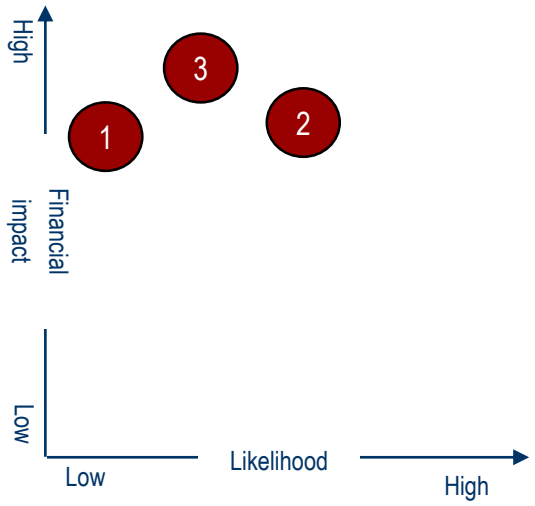
Enhanced risk An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:

- 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 March 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** 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.	We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.
2	**Valuation of property, plant and equipment, investment properties and assets held for sale** 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: • Critically assess the Council's valuer's scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations; • 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; • Assess whether valuation movements are in line with market expectations by using our own valuation expert to provide information on regional valuation trends; • 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; and • Critically assess the approach that the Council adopts to ensure that assets not subject to revaluation in 2019/20 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuer.

4. AUDIT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Significant risks (continued)

	Description of risk	Planned response
3	**Valuation of net defined benefit liability** 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: • Critically assess the competency, objectivity and independence of the Leicestershire Pension Fund's Actuary, Hymans Robertson; • 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; • 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 • 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** 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: • there is an overall low risk for local authorities, and particularly this Council; • there are no particular incentives or opportunities to commit material fraudulent revenue recognition; and • 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. 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** 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: • Reviewing the level of reported debt as at the 31 March and considering the implications for any material change; • Ensuring that managements methodology for calculating the provision has been consistently applied and is in line with the requirements of the Code; • Testing the collectability of both significant and a sample of other non-significant debtor balances; and • Re-performing the basis of the calculation for the impairment of debtors.
2	**Provision for business rate appeals against the rating list** 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: • 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; • Assessing whether the provision has been calculated and recorded in accordance with the Council's accounting policy; • Assessing whether the amount provided at the period end is appropriate, taking into account the Council's anticipated actual liability; and • 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

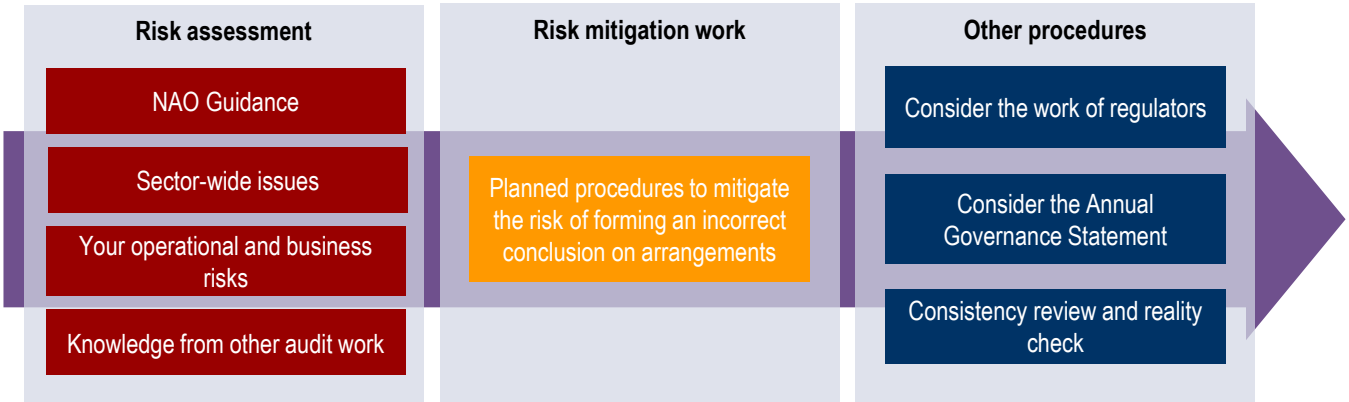
We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the overall criterion and sub-criteria 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 2019/20 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

The table below shows the scale fees set by the Public Sector Audit Appointments (PSAA) as communicated in our fee letter.

At this stage of the audit we are notifying clients that due to enhanced expectations to audit requirements since the fees were agreed by PSAA – notably around the increased work on PPE and pensions – that fees are likely to have to increase in 2019/20. Any proposed increases to the fee to address, for example, changes to the identified risks or other additional required work will be discussed with the Head of Finance before approval is sought from PSAA.

Service	2019/20 fee	2018/19 fee
Code audit work	£42,325	£43,075*

*For 2018/19 we charged an additional fee of £750 in relation to the work associated with the GMP/McCloud pension liability issue.

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	2019/20 fee	2018/19 fee
Housing Benefits Subsidy Assurance	TBC	£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.

Service	Considerations
Housing Benefit Subsidy Assurance	We have considered threats and safeguards as follows: • Self Review: The work does not involve the preparation of information that has a material impact upon the financial statements subject to audit by Mazars; • Self Interest: The total fee level is not deemed to be material to the Council or Mazars. The work undertaken is not paid on a contingency basis; • Management: The work does not involve Mazars making any decisions on behalf of management; • Advocacy: The work does not involve Mazars advocating the Council to third parties; • Familiarity: Work is not deemed to give rise to a familiarity threat given this piece of assurance work used to fall under the Audit Commission / PSAA certification regimes and was the responsibility of the Council's appointed auditor; and • Intimidation: The nature of the work does not give rise to any intimidation threat from management to Mazars.

8. MATERIALITY AND MISSTATEMENTS

Summary of initial materiality thresholds

Threshold	Materiality
Overall materiality	£1,588,000
Performance materiality	£1,271,000
Trivial threshold for errors to be reported to the Audit Committee	£48,000

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 2018/19 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 2018/19 audited financial statements.

8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

Based on the 2018/19 audited financial statements we anticipate the overall materiality for the year ending 31 March 2020 to be £1,588,000 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 second year of audit and accordingly we hold existing cumulative audit knowledge about the Council's financial statements. We have therefore set our performance materiality at 80% of our overall materiality being £1,271,000 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	£92,000
Note 28 – Senior Officers' remuneration*	25% of total	£5,000
Note 28 – Officers' remuneration (bandings table)**	Bandings (£5,000)	£5,000
Note 30 – External audit costs*	25% of total	£15,000

* 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 £48,000 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 2019/20

There are no other significant changes to the Code of Practice on Local Authority Accounting (the Code) for 2019/20.

Changes in future years

Accounting standard	Year of application	Implications
IFRS 16 – Leases	2020/21	The CIPFA/LASAAC Code Board has determined that the Code of Practice on Local Authority Accounting will adopt the principles of IFRS 16 Leases, for the first time from 2020/21. IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes to the way bodies account for leases, which will have substantial implications for the majority of public sector bodies. The most significant changes will be in respect of lessee accounting (i.e. where a body leases property or equipment from another entity). The existing distinction between operating and finance leases will be removed and instead, the new standard will require a right of use asset and an associated lease liability to be recognised on the lessee's Balance Sheet. In order to meet the requirements of IFRS 16, all local authorities will need to undertake a significant project that is likely to be time-consuming and potentially complex. There will also be consequential impacts upon capital financing arrangements at many authorities which will need to be identified and addressed at an early stage of the project.

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 – 11th March 2020

Report of the Head of Finance and Property Services

Part A

ITEM PROPERTY FUNDS PERFORMANCE DECEMBER 2019

Purpose of Report

The purpose of this report is to provide Audit Committee with the current financial performance of the two Property external funds, Lothbury and Hermes, 1st April to 31st December 2019.

Recommendation

That the Committee notes the current financial performance of the investments for the period to Ist April 2019 to 31st December 2019 set out in Part B.

Reason

To provide the Committee with an update on the Property Funds.

Policy Justification and Previous Decisions

The Council's Treasury Management Strategy was amended on 30th September 2017 (Minute ref 60) to allow the Council to invest in Property Funds and at their meeting on 15th February 2018 Cabinet approved the funding to enable the Council to undertake investment in Lothbury Property Funds. Cabinet at their meeting on 5th July 2018 then approved further funding to invest with Hermes Property Funds.

Implementation Timetable including Future Decisions

The Property Funds will continue to be monitored and the performance included in the Treasury Management update reports to Committee on a quarterly basis.

Report Implications

The following implications have been identified for this report.

Financial Implications

None.

Risk Management

There are no risks associated with this decision.

Background Papers:

Treasury Management Mid Year Review
Audit Committee 19th November 2019

Officer to contact: Lesley Tansey (01509 634828)
Head of Property Services
Lesley.tansey@charnwood.gov.uk

Part B

Background

1. The Treasury Management update – Mid Year Review for 6 months ended 30th September 2019 was reported to Audit Committee on the 19th November 2019 as part of the Treasury Management Strategy Statement for 2019/20, which provided an update the investment portfolio for 2019/20 including Property Funds.

2. The Property Fund investments will be monitored on a quarterly basis and held as long term investments as part of the Treasury Management Investment Strategy. Below tabled is the current performance of the two funds to Quarter 3 December 2019.

3. The current valuations of the Property funds to Quarter 3 December 2019 are Lothbury £2,474K (a gain of £57K) and Hermes £2,416 (a loss of £84K), representing an overall net loss of £28K (0.56%). This is a small reduction in value, however the Funds are held as long term investments and monitored quarterly.

4. The Performance of the Councils Property Funds are tabled below both are above the benchmark, being the internal average investment rate of 0.95%.

Property Fund	Date Acquired	Original Cost	Entry Fee	Total Original Cost	Q3 Interest Received 2019/20	Q3 Gross Return 2019/20	Q3 Management Fee	Q3 Net Return 2019-20
		£000	£000	£000	£000	%	£000	%
Lothbury	01/03/2018	2,417	84	2,501	101	4.16	17.63	3.45
Hermes	26/07/2018	2,500	119	2,619	80	3.19	3.14	3.07
Total		**4,917**	**203**	**5,120**	**181**			

AUDIT COMMITTEE – 11TH MARCH 2020

Report of the Head of Strategic Support

ITEM CAPITAL STRATEGY (INCLUDING THE TREASURY MANAGEMENT STRATEGY) FOR 2020/21

Purpose of Report

The purpose of this report is to provide the Committee with an opportunity to scrutinise the proposed Capital Strategy for 2020/21 and associated recommendations that are being recommended by Cabinet to full Council for approval.

Recommendation

That the Committee considers the proposed Capital Strategy (including the Treasury Management Strategy) for 2020/21, as attached in the Cabinet report dated 13th February 2020, to determine whether there are any issues it wishes to draw to the attention of full Council when they consider the relevant recommendations from Cabinet (recommendations 1 to 3 within the Cabinet report).

Reason

To ensure that the proposed documents are appropriately scrutinised.

Policy Justification and Previous Decisions

The Audit Committee is specified as being the body responsible for scrutinising these documents before they are presented to full Council for approval.

The proposed amendments to Financial Regulations (recommendation 4 within the Cabinet report) have already been approved by full Council at their meeting on 24th February 2020, and therefore the Committee is not required to consider those.

Implementation Timetable including Future Decisions

The recommendations of Cabinet will be considered at the full Council meeting on 27th April 2020.

Report Implications

The following implications have been identified for this report.

Financial Implications

As set out in the Cabinet report.

Risk Management

As set out in the Cabinet report.

Officer to contact: Adrian Ward
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adrian.ward@charnwood.gov.uk

CABINET – 13TH FEBRUARY 2020

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 2020/21

Purpose of Report

This report introduces the Capital Strategy, which is 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.

The report also sets out changes to the Council's Financial Regulations and other elements of the Constitution which are considered necessary to enable delivery of the Investment Strategy.

This Cabinet report recommends the approval of the above strategies and proposed amendments to the Constitution to Council.

Finally, in reviewing the overall Capital Strategy it has been identified that a more advantageous method of financing the environmental services fleet may be available, as compared to that set out in the Cabinet report of 13 September 2018 (see 'Environmental Services – Options for delivery from June 2020). This Cabinet report asks that the original decision on fleet financing be amended to allow more flexible approach in this area.

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.

4. That the proposed changes to the Constitution, as set out in Appendix C of this report, be approved and recommended to Council, with effect from 1st March 2020.

5. That the Environmental services fleet (due for renewal in June 2020) Cabinet is funded in the most financially advantageous way, having regard to the financial resources available to the Council at that time.

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.

4. To enable the efficient and timely execution of the Investment Strategy incorporated within the overall Capital Strategy.

5. To supersede Cabinet Recommendation of 13 September 2018 relating to the financing of the Environmental Services fleet (Minute 29 (4) refers) and allow more advantageous methods of financing the fleet to be adopted.

Policy Justification and Previous Decisions

The Capital Strategy must be approved by Council on an annual basis.

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

The latest version of the Medium Term Financial Strategy (covering financial years 2020 - 2023) outlines the prospective financial challenges facing the Council and the contribution expected of the Investment Strategy in mitigating these challenges.

Implementation Timetable including Future Decisions and Scrutiny

If approved by Council the Capital Strategy (including its component strategies) will come into effect from 1 April 2020.

If approved by Council the changes to the Constitution will come into to effect from the date of the Council meeting being 24 February 2020

This report is available for the consideration of the Scrutiny Commission on 10 February 2020.

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

The risks associated with the decision Cabinet 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*
Poor treasury investment decisions due to inadequate treasury management strategies in place	Unlikely 2	Serious 3	Moderate 6	Strategy developed in accordance with CIPFA guidelines and best practice. Adherence to clearly defined treasury management policies and practices
Loss of council funds through failure of borrowers	Remote 1	Major 4	Low 4	Credit ratings and other information sources used to minimise risk Adherence to clearly defined treasury management policies and practices
Volatile market changes (such as interest rates or sector ratings) occur during year	Possible 3	Significant 2	Moderate 6	Approved strategy in place, regular monitoring of position and use of Treasury Consultants and other sources to provide the latest advice.
Significant losses arising from investments in non-financial instruments (such as loans to third parties or property investments)	Possible 3	Serious 3	Moderate 9	Professional advice will be sought in advance of non-standard or new investment activity. Adherence to strategy which set out limits to investment in individual asset classes.

Key Decision: Yes

Background Papers: Investment Strategy 2019 - 20, Cabinet Report 19 September 2019

Treasury Management mid-year update – Cabinet Report 14 Nov 2019

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Officers to contact:

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Part B

Background

1. The Capital Strategy is a 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 Finance & Accountancy (CIPFA) taking effect from 1 April 2019. 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) set out within the Annual Investment Strategy
    - Commercial strategy – investment in 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 Treasury Management Strategy Statement, incorporating the 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

Salient features of the proposed Capital Staregy for 2020/21

6. The most recent Medium Term Financial Strategy (due to be approved at the Council meeting of 20 January 2020) includes a transformation and efficiency plan that sets out a range of responses to the likely future financial challenges facing the Council. These include a more proactive approach to treasury management and prospective investments in commercial property. Delivering against this plan requires an update on the existing Capital Strategy as well as associated changes to the Council's Constitution.

7. The principal changes and matters of note proposed within the Strategies and other Appendices to this report are:

    - An amendment to the Annual Investment Strategy to increase counterparty limits on deposits with HSBC (the Council's bankers) to take advantage of an easily accessible term deposit at favourable interest rates (see Appendix B – B3)

    - An amendment to the Annual Investment Strategy to increase counterparty limits on deposits with Money Market Funds to easily deposit short term 1 day notice money (see Appendix B – B3)

    - An amendment to the Annual Investment Strategy to increase the maximum maturity period for local authority investments from 24 to 60 months (see Appendix B – B3)

    - An amendment to the Annual Investment Strategy to add Housing Associations (with adequate credit references) to the list of allowed non-specified investments, again to offer the potential of achieving greater investment returns (see Appendix B – B3)

- Other amendments to the Strategies to allow the development of a commercial property portfolio enabled by total borrowings of up to £25m including:
    - Uplift to the estimates of the Capital Financing Requirement (see Appendix B, section 2.2)
    - Increasing the allowed limits to borrowing and investment activity (see Appendix B, sections 3.2 and 4.4)
- Implementing a policy on MRP which specifically addresses prospective acquisitions of commercial property (see Appendix B, sections 2.4 and Appendix B (2))
- Amending the Financial Regulations and other elements of the Council's constitution to enable the Council to take advantage of commercial property opportunities on an efficient and timely basis (see Appendix C)

8. For the purposes of the Capital Strategy and other documents associated with this report it is assumed that the Council will target the development of a commercial property portfolio with the (approximate) acquisition value of £25m over the period to 31 March 2023. However, it should be noted that extant Capital Plans only have approval for commercial property acquisitions of a value up to £10m (notionally split as £5m in 2019/20 and £5m in 2020/21); increasing this amount will therefore require an amendment to the Capital Plan as and when this is considered appropriate.

9. In developing a commercial property portfolio it will be necessary to put detailed arrangements in place, including access to professional skills and resources, and defined processes setting out how individual opportunities will be evaluated and (if appropriate) purchased (or disposed). It may be noted that the intention is to present a further Cabinet report covering these specific matters in forthcoming months.

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

11. As stated 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.

<u>Financing of the Environmental Services fleet</u>

12. As part of the process of developing the Capital Strategy and assessing future investment plans and borrowing need, the plan to finance the acquisition of the Council's Environmental Services fleet, as reflected in Minute 29 (4) of the Cabinet meeting of 13 September 2018, has been

reviewed. The decision of Cabinet was that the fleet be financed by a '50:50' mix of external and internal borrowing. It remains possible that this precise mix of financing does prove optimal when the fleet has to be purchased (in June 2020) but Cabinet are asked (Part A, Recommendation 5.) to allow flexibility in the mix of financing used and therefore allow the fleet to be financed by the most advantageous method available to the Council.

Appendices

Appendix A: Capital Finance Strategy

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

Sub appendices contained within this document:

B (1) Economic background

B (2) Minimum Revenue Provision

B (3) Treasury Management Practice

B (4) Approved countries for investment

B (5) List of approved brokers for investment

B (6) Current investments (snapshot at 6 January 2020)

B (7) Treasury management scheme of delegation

B (8) Treasury management role of the Section 151 Officer

Appendix C: Proposed amendments to the Financial Regulations and other areas of the Constitution

Charnwood Borough Council

Capital Strategy

2020 – 2021

Foreword

The requirement for the Capital Strategy arises from the terms of the 'Prudential Code', a statutory code of practice. This second iteration of our Capital Strategy builds on our initial thinking and develops in more detail some of our plans and aspirations in the areas of capital planning, treasury management, new borrowing, and, in particular, our intention to develop a portfolio of commercial property to help us mitigate the financial challenges outlined in the latest version of our Medium Term Financial Strategy.

In that Medium Term Financial Strategy we outlined the likely 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. We have aspirations to deliver housing through the mechanism of a Housing Development Company in order to meet the ongoing demand for new homes within our Borough and, more generally, to adopt a more proactive approach to commercialism and development. Enabling these initiatives require additional flexibility in the Council's treasury management and borrowing policies which are introduced within the Capital Strategy and associated Treasury Management Strategy.

This version of the Capital Strategy outlines important changes, in particular the anticipated use of prudential borrowing to support commercial investment and a more financially advantageous approach to refreshing the environmental services fleet. Security and liquidity will remain as key elements of the Council's treasury management approach, and we will always want to be prudent in the way that we manage our finances, but the anticipated challenges ahead point us towards a more proactive approach in the use of our financial assets.

Councillor Tom Barkley

Cabinet Lead Member for Finance & Property

February 2020

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:

1. **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.

2. **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.

3. **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.

4. **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.

5. **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.

6. (Appendix B). **Treasury management policy statement and practices**; this is presented separately; it 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

Capitalisation policies

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.

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.

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.

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.

Governance

5. A three year Capital Plan is prepared by officers and approved by Council. Potential schemes are identified by Officers, in conjunction with Cabinet members, and supported by a Capital Application form. Following a process of review by senior officers a report is prepared for Cabinet with recommendations as to which schemes to include in the Plan, how the Plan would be funded and other elements such as risk and compliance with the Prudential Code.

6. 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.

7. 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.

8. All schemes of £50,000 in value or greater require Capital Appraisal and all procurement and contracting must adhere to the Contract Procedure Rules. The Section 151 Officer[1] makes recommendations to Cabinet as to whether funding should be released to allow new schemes to be included in the Capital Plan.

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

10. 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 Capital Plan

11. The Council has a policy of preparing a three year Capital Plan, and then refreshing this every other year. Due to timings, there are at the time of drafting this strategy essentially two Capital Plans in existence. The first covering the financial years 2018/19 - 2020/21, was originally approved by Council on 26 February 2018 with the latest amendments approved by Cabinet at its meeting of 16 December 2019. There is also a 'new' capital plan covering financial years 2020/21 – 2022/23 which is due for approval by Council on 24 February 2020.

12. Assuming approval of the latter plan by Council, the Plans will be merged to create to single Plan from 1 April 2020.

13. In totality, in the period 1 April 2020 to 31 March 2023, capital expenditure is planned as follows:

General Fund	£33m
HRA	£29m

Amounts within the General Fund include £4.8m that is required to finance the purchase of the Environmental Services Fleet and £25m for the creation of a commercial property portfolio.

14. The Capital Plan is funded by a combination of the following sources:

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

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

Revenue contributions – amounts set aside from the revenue budget.

[1] The Council's statutory Finance Officer appointed under section 151 of the Local Government Act 1972; also known as the Chief Financial Officer

Prudential borrowing - In addition to the above the Council also has the option to borrow to fund capital expenditure. At this point in time the Council has not taken any borrowing to fund General Fund capital expenditure but some level of borrowing will now be required if the Council is to deliver its Capital Plan within the projected timescales.

15. The Council has taken out borrowing to fund the purchase of its housing stock (held within the Housing Revenue Account) from the Government under the 2012 Self-Financing Regime. This totals £79m.

16. 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.

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

2. Capital Financing Requirement and borrowing

18. 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.

19. As referenced in the previous section, the Council's capital expenditure plans mean that it is highly likely that the Council will need to finance this expenditure using prudential borrowing. This is an important departure from historical practice and the implications of this approach are set out within Appendix B of this document set which details with prudential borrowing within the overall context of the Council's Capital Financing Requirement.

20. The full details of the Council's Capital Financing Requirement (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 investment

21. 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 is set out in full in the Treasury Management Strategy Statement (Appendix B).

22. The Council's Treasury Management Strategy Statement (TMSS) covers 'specified investments' and loans to other local authorities. The policies are designed to comply with the Statutory Guidance on Local Government Investments ('the Guidance'), effective from 1 April 2018. The Council manages treasury operations in line with its TMSS, which in turn is in accordance with the guidance. The Council is required to review the TMSS on an annual basis.

23. The Guidance defines in detail what criteria an investment would meet to be categorised as 'specified' One of the criteria of specified investments is that the local authority has a contractual right to repayment within 12 months. Certain loans to other local authorities made by the Council have a term of up to two years (with an intention to increase the allowed maimum to five years), so do not fall strictly within the definition. However, the Council considers that management of this type of financial instrument should fall within the ambit of the TMSS.

CHANGES TO THE TREASURY MANAGEMENT STRATEGY FOR 2020/21

24. Interest rates are at historically low levels and are expected to remain so for several months ahead. In a continuation of the current direction, in which the Council has sought to increase returns from its treasury management activities.

25. Assuming an average fund under management of £50m, an increase in return by an average of 0.1%, this would generate additional income of £50,000 per annum.

26. Given the above the following amendments have been made to the TMSS:

- An amendment to increase counterparty limits on deposits with HSBC (the Council's bankers) to take advantage of an easily accessible term deposit at favourable interest rates (see Appendix B – B3)

- An amendment to the Annual Investment Strategy to increase counterparty limits on deposits with Money Market Funds to easily deposit short term one day notice money (see Appendix B – B3)

- An amendment to increase the maximum maturity period for local authority investments from 24 to 60 months (see Appendix B – B3)

- An amendment to add Housing Associations (with adequate credit references) to the list of allowed non-specified investments, again to offer the potential of achieving greater investment returns (see Appendix B – B3).

4. Commercial investments

27. 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.

28. CIPFA has 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.

29. 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.

30. As is the case for treasury activities, commercial investment should balance:

- Security – to protect the capital sums invested from loss
- Liquidity – ensuring the funds invested are available for expenditure when needed
- Returns – ensuring that the Council's investment ability is used effectively.

31. At present commercial investments of 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).

32. Commercial investment may be defined quite widely and could include, for example:
    - Commercial property investment held solely for the purposes of generating a financial return
    - Investments in wholly owned companies and joint ventures (which maybe in the form of equity or loans)
    - Wider scale and more ambitious regeneration projects
    - Ad-hoc complex investments

33. The Statutory Guidance describes non-financial investment as being in non-financial assets held primarily or partially to generate a profit. Usually it will be expected that the underlying asset could be 'realised' to recoup the capital invested.

34. There are important aspects of financial reporting that Council's must be aware of. In terms of reporting it is necessary to state whether:

- The fair value of non-financial investments is sufficient to provide security against losses, and that the underlying assets provide adequate security for the originating capital investment
- Where the fair value is insufficient detail of mitigating actions should be provided to protect the capital invested
- Additionally, where the fair value assessment recognises a loss in the non-financial investment the subsequent Capital Strategy will need to reflect the impact of loss of security and the associated revenue consequences.

35. Fair value accounting in this context is covered by International Financial Reporting Standard 9, as modified by a five-year statutory override applicable to local authorities (covering financial years from 2018/19). The implication of the override is that if a local authority recognises a loss on investment then this will not impact on the general fund, or, therefore, on an authority's ability to set its budget. However, the override is (currently) time limited and a major downturn in the value of specific assets, or the property market generally, represents a clear risk in future financial periods.

36. The following paragraphs outline options open to the Council and sets out the strategic approach the Council intends to adopt in this area.

Commercial Investment properties

37. 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).

38. In considering its approach to investment properties the Council has 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
    - Possible geographical limits on prospective acquisitions
    - 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

39. In the context of the Capital Strategy, the Council is planning to use capital to invest in property to produce a revenue return to sustain the delivery of key

services for the Borough's residents. This capital will, where available, be in the form of capital receipts and/or prudential borrowing.

40. Outlined below is the Commercial Property Investment Strategy which proposes a formal approach to invest in property that provides a positive surplus and financial return. This is achieved by buying property that has a tenant who pays rent to the owner of the property – the landlord. The tenant needs to be of good financial standing and the property and lease must meet certain standards such as being in a commercially popular location and have a number of years left on the lease providing a certain and contractually secure rental income into the future.

41. The Council may fund the purchase of the property by borrowing money – potentially from the Public Works Loans Board (funded by the Central Government). As the number of acquisitions increases purchases fianced by borrowing can be expected. The rental income paid by the tenant must exceed the cost of repaying the borrowed money each year. The annual surplus then supports the Council's budget position, and enables the Council to continue to provide services for local people.

42. Historically, property has proved to be one of, if not the best, investment in terms of capital growth over the last 50 years. If the Council owns the property for 20 years plus, and the property is managed and maintained appropriately, the Council should expect to see an increase in the value of the property as well as a net annual surplus of revenue.

43. Local authorities have very wide powers to acquire, sell, appropriate and develop land, such that it is rare to need to use the powers in the Localism Act 2011. Specific property related powers are very wide and include the following:
    a. Sections 120 to 123 of the Local Government Act 1972
    b. Section 227, Town and Country Planning Act 1990
    c. Section 233, Town and Country Planning Act 1990
    d. Local Authorities (Land) Act 1963 (development)
    e. Housing Act 1985
    f. Sections 24-26 Local Government Act 1988

44. There are various powers that would usually be sufficient for the Council to undertake any property acquisition, sale or related project in its area where at least part of the motivation is connected with the broad benefit or improvement of its area, as it is in the case of this strategy.

45. Section 120 of the Local Government Act 1972 to acquire land (inside or outside of their area) for the purposes of any of their functions, and then this gives us the power to borrow as contained in Section 1 of the Local Government Act 2003 - A local authority is empowered to borrow money for any purpose relevant to its functions under any enactment.

46. Each acquisition will be evaluated on its merits to consider the relevant purpose(s), legal powers, financial powers and any other implications. It is

planned that the details of the Council's evaluation process will be set out in Cabinet report prior to any property acquisitions being undertaken.

47. The strategy for 2020/21 is set out below:

STRATEGY FOR 2020/21 - INVESTMENT IN COMMERCIAL PROPERTY

An amount of £10m to expand the Council's commercial property portfolio has been added to the forthcoming capital plan. Looking at the financial challenges outlined within the latest version of the MTFS it is envisaged that the portfolio will grow to around £25m, with an additional £10m being added to the capital plan in 2021/22 and a further £5m in 2022/23.

This investment will be purely to generate investment returns to address the financial challenges outlined in the MTFS and to protect/support service delivery to residents.

No specific minimum or maximum will be applied to any single property investment, to avoid restricting the Council's actions should financially advantageous opportiunities present themselves. However, it is envisaged that acquistions, at least initially, will be in the range of £1m - £5m. It should also be noted that availability of funds set aside in the capital plan provide a natural limit on the cost of acquisitions.

The minimum gross yield acceptable will be based on extant commercial yields and informed by professional advice:

- Default minimum yield would be in line with benchmark commercial property yields (currently around 7%)
- After allowing for interest payments and MRP charge the target net return will normally be 3.5%
- In certain circumstances, a minimum net yield less than 3.5% may be acceptable and advantageous to the Council, particularly where risk balancing may be required. In the instance that a net yield less than 3.5% is achieved, the rationale for the departure will be clearly explained in the accompanying business case.

Generally, property acquisitions will be located outside of the Borough; this will allow the Council to act in the same way as a commercial landlord and not allow returns to be compromised by local non-commercial considerations.

Reserves will be created out of rental income to allow for the impact of:

- MRP requirements
- Allowance for void rental periods and landlord repair obligations

After creation of reserves, and taking account of actual or notional[2] borrowing costs, the target net yield expected on individual acquisitions , as noted above, will be 3.5% (based on current market conditions.

Appropriate independent professional advice will be sought for each property acquisition.

In order to act in a timely manner the Council's governance rules will be amended to allow more rapi decision making; details are set out at Appendix C of the Capital Strategy report.

At present it will be assumed that this funding is phased as an initial £10m to 31 March 2021, with a further £10m in 2021/22 and £5m in 2022/23.

Loans to local enterprises and third parties

48. 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

[2] In evaluating prospective acquisitions it will be assumed that borrowing costs will be incurred (whether or not borrowing is required); this is to allow like for like evaluation of acquisitions independent of financing.

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
- That total financial exposure to this type of loan is proportionate
- An allowed 'expected credit loss' model for assessing credit risk is adopted[3]
- Appropriate credit control arrangements to cover overdue payments are in place
- The local authority has formally agreed the total level of loans by type that it is willing to make, and the total loan book is within that self-assessed limit.

49. The Council will not proactively seek to market loans to third parties but will consider offering loans to local enterprises, local charities, on a case by case basis, as and when approached.

50. The Council will also consider offering a loan, on a case by case basis, to any subsidiaries that may exist at a point time; in particular, this would apply should the Council have a subsidiary Housing Development Company.

51. The strategy in this area is set out below:

STRATEGY FOR 2020/21 – LOANS TO THIRD PARTIES AND SUBSIDIARIES

No money will be set aside within the Capital Plan unless and until a specific proposal is available for consideration.

Should an opportunity to offer a loan to a third party arise reports will be taken to Cabinet, and Council if required, to seek specific approval for that transaction.

All prospective debtor organisations will be either be located, or will have substantial operations, within the Borough.

Any asset created through the loan will be located within the Borough.

The purpose of the loan will support local economic growth as defined within the extant Corporate Plan.

The maximum total loan book the Council would manage will be £10m.

The maximum single loan to an individual organisation will be:

- Secured loan £5m

[3] As defined within International Financial Reporting Standard 9 – in broad terms the likelihood of a creditor defaulting in future must be considered in accounting for impairment (compared to previous Standards in which accounting was based on actually incurred losses)

- Unsecured loan £2m

The maximum total value of unsecured loans will be £4m.

Loans will be offered on a commercial basis with rates offered dependent on risk; unsecured loans will attract higher interest rates. Rates offered will be in accordance with independent professional advice

Due diligence will be carried out on prospective debtor organisations.

Generally, independent professional advice will be taken to ensure that the structure of loan finance offered, and the risk and return associated with that structure is appropriate.

Support for Subsidiaries

52. 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.

53. However, the Council is actively considering the creation of a Housing Development Company. It may be appropriate to invest directly in the equity of a Housing Development Company, rather than in the form of a loan, as described above. The basis of investment will be equivalent, as described below.

STRATEGY FOR 2020/21 - INVESTMENT IN A HOUSING DEVELOPMENT COMPANY

An amount of £10m to fund the HDC may be allocated within the capital plan – but no funding is allocated at present.

This funding *may* be in the form of an equity investment in the HDC, upon which dividends or and / or management fees will be due to the Council.

Pro tem it will be assumed that this funding is phased £5m in 2021/22 and £5m in 2022/23.

It is assumed that this funding be financed through Council borrowing, as and when investment is required.

At minimum, dividends and management fees will cover all of the Council's borrowing costs, in cases where the subsidiary company is wholly owned by the Council.

At minimum dividends and management fees will cover all of the Council's borrowing costs, plus a margin of in cases where a subsidiary company or joint venture is only partially owned by the Council.

Professional advice will be taken to ensure:

- Anyt loans are structured in the most advantageous way, having regard to risk, prospective returns, and tax implications
- MRP can be avoided or mitigated through the loan structure

Appropriate due diligence will be carried out on prospective partner organisations.

In total, the maximum investment in a HDC, whether by loan or equity investment, will be an amount of £10m.

Other commercial investments

54. Investment in other types of asset, or in larger and more complex arrangements, is not considered within this iteration of the Commercial Investment strategy. In practice, should opportunities arise, the Commercial Investment and Capital Strategies could be amended, subject to the approval of full Council, to allow emerging opportunities to be exploited. It can also be assumed that any significant investment would be subject to the specific approval by Cabinet.

5. Knowledge and Skills

55. 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.

56. 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

57. 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

2020/21

Including Commercial activities/non treasury activities

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 generally low risk counterparties or instruments commensurate with the Council's 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. When prudent and econcomic 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."*

1.2 Reporting requirements

1.2.1 Capital Strategy

The CIPFA 2017 Prudential and Treasury Management Codes (and subsequent releases) requires all local authorities to prepare a capital strategy report, which provides 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 borrowing is justified in the light of MHCLG Investment Guidance and the CIPFA Prudential Code.

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.

1.2.2Treasury Management reporting

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

a) **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).

b) **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.

c) **An annual treasury report** – This provides details 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 Scrutiny Commission.

1.3 Treasury Management Strategy for 2020/21
The strategy for 2020/21 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, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG 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 Personal Review process

1.5 Treasury management consultants

The Council uses Link Asset Services Treasury Solutions as its external treasury management advisors. The council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the service of our external service providers. All decisions will be undertaken with regards to all available information, but not solely, our treasury advisers.

It 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 2021/22-2022/23

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	2018/19 Actual £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'0003
General Fund	2,985	5,739	7,507	3,677	2,727
HRA	6,086	9,094	7,646	7,381	7,724
Commercial Investments	0	5,000	5,000	10,000	5,000
Total	9,071	19,833	20,153	21,058	15,451

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	2018/19 Actual £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Total Capital Expenditure as per above table	**9,071**	**19,833**	**20,153**	**21,058**	**15,451**
Financed by:					
Capital receipts	1,359	2,770	2,633	2,936	2,006
Capital grants	1,264	2,909	390	1,191	1,171
Capital reserves	1,732	5,495	3,189	3,189	3,189
Revenue Contributions	4,716	3,659	4,141	3,742	4,085
Net financing need internal/external borrowing	0	5,000	9,800	10,000	5,000
Total Funding	**9,071**	**19,833**	**20,153**	**21,058**	**15,451**

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 charges the economic consumption of capital assets as they are used.

It should be noted at that the Council has only taken borrowing to fund the HRA Self-financing to date, however a Cabinet report of 13 September 2018 approved the purchase of fleet of vehicles in 2020 of £4.8m that may be wholly or partially funded by borrowing. The funding options will be reviewed further prior to purchase. Also, an Investment Strategy report taken to Cabinet on 19 September 2019 projected borrowing of £10m for commercial property investment in 2019/20 and 2020/21, which means that the CFR will then increase (Net of MRP Charge). In anticipation of an amendment to the Capital Plan a further £10m has been assumed for commercial property investment for 2021/22 with a further £5m assumed for 2022/23. The resultant CFR projections are set out in the table below.

	2018/19 Actual £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Capital Financing Requirement					
CFR – General Fund - Fleet	0	0	4,800	4,200	3,600
CFR – HRA	81,820	81,820	81,820	81,820	81,820
CFR – Commercial Activites		5,000	9,934	19,799	24,528
Total CFR	**81,820**	**86,820**	**96,554**	**105,819**	**109,948**
Movement in CFR	**0**	**5,000**	**9,734**	**9,265**	**4,129**
Movement in CFR represented by					
Net financing need as per 2.1 for the year (above)	0	5,000	9,800	10,000	5,000
Less MRP and other financing movements	**0**	0	(66)	(735)	(871)
Movement in CFR	**0**	**5,000**	**9,734**	**9,265**	**4,129**

2.3 Core Funds and Expected investment balances

The application of resources (capital receipts, Capital Reserves, Revenue Contributions to Capital, Capital Grants) to finance Capital expenditure will have an ongoing impact on investments unless resources are supplemented each year by new resources (assets sales, grants etc). Detailed below are estimates of the year end balances held for each resource.

The current three year Capital plan runs through to 2020/21 and a new three year Capital plan starts in 2020/21 running to 2022/23[1]. Funding for this capital expenditure plus the additional £15m funding it is anticipated will be allocated for commercial property investment is funded as per table above in 2.1. Any additional proposals for capital expenditure will require a capital appraisal and business plan to be considered by Senior Leadership Team and Cabinet approval. The funding position is regularly reviewed and if there is a need to borrow, this will require a further appraisal and a revision to the Capital programme and the Treasury Management Strategy in year it will be brought back to full Council for approval.

2.4 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).

[1] The plans will be merged once the new Capital Plan has been approved by Council

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), VRP 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 2020 the total VRP and overpayments were £0m.

The Council has for the General Fund a CFR requirement and therefore will 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 for each year, an MRP policy has been included in this Treasury Management Strategy as Appendix B(2). Council is asked to adopt and approve the MRP policy statement.

3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the capital expenditure of the Council over the next 3 years. 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 2020/21 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 or speculative purpose.

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.

	2018/19 Actual £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
External Debt at 1 April	81,190	81,190	86,190	95,990	105,990
Expected change in Debt	0	5,000	9,800	10,000	5,000
Actual debt at 31 March	81,190	86,190	95,990	105,990	110,990
Capital Financing Requirement	81,820	86,820	96,620	106,620	111,620
Under/(over) borrowing	630	630	630	630	630

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 and existing plans. Within the above figures there is £25m debt that relates to new commercial activities and 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 2020/21 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 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	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Debt	81,190	81,190	81,190	81,190
Commercial Activities/Non-financial investments	15,000	15,000	25,000	30,000
Other long term liabilities	0	0	0	0
Total	**96,190**	**96,190**	**106,190**	**111,190**

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. The Council has decided to take forward commercial investment plans as part of the investment Strategy report to Cabinet on 19th September and following this the authorisaton limits have increased by £15m, these were recommended to Council as part of the 14th November Treasury Management Mid year cabinet report, and it is also recommended that the limits increase further to cover projected additional borrowing in 2021/22 of £10m and £5m in 2022/23.

The authorised limit will be amended as follows (assuming the Capital Strategy is approved by Council) :

Authorised limit	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Debt	96,000	96,000	96,000	96,000
Commercial Activities/Non-financial investments	15,000	15,000	25,000	30,000
Other long term liabilities	0	0	0	0
Total	111,000	111,000	121,000	126,000

In October 2018 the Government published the “Limit of Indebtedness (Revocation) Determination 2018”. This removed the HRA debt cap which was £88,770k. This means that the HRA is able to determine its own level of borrowing in alignment with prudential guidelines. This means that it can borrow providing it can demonstrate that the interest and loan repayments are affordable, within the overall HRA.

3.3 Prospects for interest rates

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

Link Asset Services Interest Rate View	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.60	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.20	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.10	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

The above forecasts have been based on an assumption that there is an agreed deal on Brexit, including agreement on the terms of trade between the UK and EU, at some point in time. The result of the general election has removed much uncertainty around this major assumption. However, it does not remove uncertainty around whether agreement can be reached with the EU on a trade deal within the short time to December 2020, as the prime minister has pledged.

It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit and the outcome of the general election. In its meeting on 7 November, the MPC became more dovish due to increased concerns over the outlook for the domestic economy if Brexit uncertainties were to become more entrenched, and for weak global economic growth: if those uncertainties were to materialise, then the MPC were likely to cut Bank Rate. However, if they were both to dissipate, then rates would need to rise at a “gradual pace and to a limited extent”. Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. There is still some residual risk that the MPC could cut Bank Rate as the UK economy is still likely to only grow weakly in 2020 due to continuing uncertainty over whether there could effectively be a no deal Brexit in December 2020 if agreement on a trade deal is not reached with the EU. Until that major uncertainty is removed, or the period for agreeing a deal is extended, it is unlikely that the MPC would raise Bank Rate.

Bond yields / PWLB rates. There has been much speculation during 2019 that the bond market has gone into a bubble, as evidenced by high bond prices and remarkably low yields. However, given the context that there have been heightened expectations that the US was heading for a recession in 2020, and a general

background of a downturn in world economic growth, together with inflation generally at low levels in most countries and expected to remain subdued, conditions are ripe for low bond yields. While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last thirty years. We have therefore seen over the last year, many bond yields up to ten years in the Eurozone actually turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby ten-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated, as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities. However, stock markets are also currently at high levels as some investors have focused on chasing returns in the context of dismal ultra-low interest rates on cash deposits.

During the first half of 2019-20 to 30 September, gilt yields plunged and caused a near halving of longer term PWLB rates to completely unprecedented historic low levels. *(See paragraph 3.7 for comments on the increase in the PWLB rates margin over gilt yields of 100bps introduced on 9.10.19.)* There is though, an expectation that financial markets have gone too far in their fears about the degree of the downturn in US and world growth. If, as expected, the US only suffers a mild downturn in growth, bond markets in the US are likely to sell off and that would be expected to put upward pressure on bond yields, not only in the US, but also in the UK due to a correlation between US treasuries and UK gilts; at various times this correlation has been strong but at other times weak. However, forecasting the timing of this, and how strong the correlation is likely to be, is very difficult to forecast with any degree of confidence. Changes in UK Bank Rate will also impact on gilt yields.

One potential danger that may be lurking in investor minds is that Japan has become mired in a twenty-year bog of failing to get economic growth and inflation up off the floor, despite a combination of massive monetary and fiscal stimulus by both the central bank and government. Investors could be fretting that this condition might become contagious to other western economies.

Another danger is that unconventional monetary policy post 2008, (ultra-low interest rates plus quantitative easing), may end up doing more harm than good through prolonged use. Low interest rates have encouraged a debt-fuelled boom that now makes it harder for central banks to raise interest rates. Negative interest rates could damage the profitability of commercial banks and so impair their ability to lend and / or push them into riskier lending. Banks could also end up holding large amounts of their government's bonds and so create a potential doom loop. (A doom loop would occur where the credit rating of the debt of a nation was downgraded which would cause bond prices to fall, causing losses on debt portfolios held by banks and insurers, so reducing their capital and forcing them to sell bonds – which, in turn, would cause further falls in their prices etc.). In addition, the financial viability of pension funds could be damaged by low yields on holdings of bonds.

The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. 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.

In addition, PWLB rates are subject to ad hoc decisions by **H.M. Treasury** to change the margin over gilt yields charged in PWLB rates: such changes could be up or down. It is not clear that if gilt yields were to rise back up again by over 100bps within the next year or so, whether H M Treasury would remove the extra 100 bps margin implemented on 9.10.19.

Economic and interest rate forecasting remains difficult with so many influences weighing on UK gilt yields and PWLB rates. 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

- In Investment returns are likely to remain low during 2020/21 with little increase in the following two years. However, if major progress was made with an agreed Brexit, then there is upside potential for earnings.
- Borrowing interest rates were on a major falling trend during the first half of 2019-20 but then jumped up by 100 bps on 9.10.19. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. However, the unexpected increase of 100 bps in PWLB rates requires a major rethink of local authority treasury management strategy and risk management. Now that the gap between longer term borrowing rates and investment rates has materially widened, and in the long term Bank Rate is not expected to rise above 2.5%.
- There will remain a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new short or medium-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 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 2020/21 treasury operations. The Council will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances both internally and externally.

When the Council invests 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.

However, rescheduling of current borrowing in our debt portfolio is unlikely to occur as the 100 bps increase in PWLB rates only applied to new borrowing rates and not to premature debt repayment rates.

The Council currently has one long term market 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 are revised from £25m to a total of £30m, (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 has changed from last year due to a new investment Strategy.

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 by the end of 2019 or soon after, then Bank Rate is forecast to increase only slowly over the next few years to reach 1.25% by quarter 1 2022. Bank Rate forecasts for financial year ends (March) are:

- Q1 2021 0.75%
- Q1 2022 1.00%
- Q1 2023 1.25%

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:

2019/20	0.75%
2020/21	1.00%
2021/22	1.00%
2022/23	1.50%
2023/24	1.50%
2024/25	1.75%
Later years	2.25%

- The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.

- In the event that a Brexit deal is agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

Additionally the Council currently 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 > 365 days	£25m	£30m	£30m

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

B (1). Economic Background

B (2). Minimum Revenue Provision Policy

B (3). Treasury management practice 1 – credit and counterparty risk management

B (4). Approved Countries for Investment

B (5). Approved Brokers for investments

B (6). Current Investments as at 6th January 2020

B (7). Treasury management scheme of delegation

B (8). The treasury management role of the section 151 officer

APPENDIX B(1)

ECONOMIC BACKGROUND

UK. Brexit. 2019 has been a year of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on 31 October, with or without a deal. However, in September, the Supreme Court overturned his proroguing of Parliament and Parliament carried a bill to delay **Brexit** until 31 January 2020 if there is no deal by 31 October. MPs also voted down holding a general election before 31 October, though one could happen before the end of 2019. Despite Johnson agreeing a deal with the EU in mid October, so far, there has been no majority of MPs for any one option to move forward on enabling Brexit to be implemented. At the time of writing (25.10.19), the whole Brexit situation is highly fluid and could change radically by the day. Given these circumstances and the possibility that there could be an imminent general election, any interest rate forecasts are subject to material change as the situation evolves. If Parliament fully approves the withdrawal bill, then it is possible that growth could recover relatively quickly. The MPC could then need to address the issue of whether to raise Bank Rate at some point in the coming year when there is little slack left in the labour market that could cause wage inflation to accelerate; this would then feed through into general inflation. On the other hand, if there was a no deal Brexit and there was a significant level of disruption to the economy, then growth could weaken even further than currently: the MPC would then be likely to cut Bank Rate in order to support growth. However, with Bank Rate still only at 0.75%, the MPC has relatively little room to make a big impact and it would probably suggest that it would be up to the Chancellor to provide help to support growth by way of a fiscal boost by e.g. tax cuts, increases in the annual expenditure budgets of government departments and services and expenditure on infrastructure projects, to boost the economy. The Government has already made moves in this direction.

The first half of 2019 saw UK **economic growth** falling to -0.2% in quarter 2 as Brexit uncertainty took a toll. In its Inflation Report of 1 August, the Bank of England was notably downbeat about the outlook for both the UK and major world economies. The **MPC** meeting of 19 September reemphasised their concern about the downturn in world growth and also expressed concern that prolonged Brexit uncertainty would contribute to a build-up of spare capacity in the UK economy, especially in the context of a downturn in world growth. This mirrored investor concerns around the world which are now expecting a significant downturn or possibly even a recession in some major developed economies. It was therefore no surprise that the Monetary Policy Committee (MPC) left Bank Rate unchanged at 0.75% throughout 2019, so far, and is expected to hold off on changes until there is some clarity on what is going to happen over Brexit. However, it is also worth noting that since Boris Johnson became Prime Minister, the government has made significant statements on various spending commitments and a relaxation in the austerity programme. This will provide some support to the economy and, conversely, take some pressure off the MPC to cut Bank Rate to support growth.

As for **inflation** itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell to 1.7% in August and September. It is likely to remain close to 2% over the next two years and so it does not pose any immediate concern to the MPC at the current time. However, if there was a no deal Brexit, inflation could rise towards 4%, primarily because of imported inflation on the back of a weakening pound.

With regard to the **labour market,** despite the contraction in quarterly GDP growth of -0.2% q/q, (+1.3% y/y), in quarter 2, employment continued to rise, but at only a muted rate of 31,000 in the three months to July after having risen by no less than 115,000 in quarter 2 itself. However, in the three months to August, employment swung into negative with a fall of 56,000, the first fall for two years. Unemployment duly rose from a 44 year low of 3.8% on the Independent Labour Organisation measure in July to 3.9%. Wage inflation also edged down slightly from a high point of 3.9% to 3.8% in August, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.1%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The quarter 2 GDP statistics also included a revision of the savings ratio from 4.1% to 6.4% which provides reassurance that consumers' balance sheets are not over stretched and so will be able to support growth going forward. This would then mean that the MPC will need to consider carefully at what point to take action to raise Bank Rate if there is an agreed Brexit deal, as the recent pick-up in wage costs is consistent with a rise in core services inflation to more than 4% in 2020.

In the **political arena**, if there is a general election soon, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up although, conversely, a weak international backdrop could provide further support for low yielding government bonds and gilts.

USA. President Trump's massive easing of fiscal policy in 2018 fuelled a temporary boost in consumption in that year which generated an upturn in the rate of growth to a robust 2.9% y/y. **Growth** in 2019 has been falling back after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2. Quarter 3 is expected to fall further. The strong growth in employment numbers during 2018 reversed into a falling trend during 2019, indicating that the economy is cooling, while inflationary pressures are also weakening.

The Fed finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment' but flagged up that this was not intended to be seen as the start of a series of cuts to ward off a downturn in growth. It also ended its programme of quantitative tightening in August, (reducing its holdings of treasuries etc). It then cut rates again in September to 1.75% - 2.00% and is thought likely to cut another 25 bps in December. At its September meeting it also said it was going to **start buying Treasuries again**, although this was not to be seen as a resumption of quantitative easing but rather an exercise to relieve liquidity pressures in the repo market. Despite those protestations, this still means that the Fed is again expanding its balance sheet holdings of government debt. In the first month, it will buy $60bn , whereas it had been reducing its balance sheet by $50bn per month during 2019. As it will be buying only short-term (under 12 months) Treasury bills, it is technically correct that this is not quantitative easing (which is purchase of long term debt).

Investor confidence has been badly rattled by the progressive ramping up of increases in tariffs President Trump has made on Chinese imports and China has responded with increases in tariffs on American imports. This **trade war** is seen as depressing US, Chinese and world growth. In the EU, it is also particularly impacting Germany

as exports of goods and services are equivalent to 46% of total GDP. It will also impact developing countries dependent on exporting commodities to China.

EUROZONE. Growth has been slowing from +1.8 % during 2018 to around half of that in 2019. Growth was +0.4% q/q (+1.2% y/y) in quarter 1 and then fell to +0.2% q/q (+1.0% y/y) in quarter 2; there appears to be little upside potential to the growth rate in the rest of 2019. German GDP fell by -0.1% in quarter 2; industrial production was down 4% y/y in June with car production down 10% y/y. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars.

The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which then meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by quantitative easing purchases of debt. However, the downturn in EZ growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March meeting it said that it expected to leave interest rates at their present levels “at least through the end of 2019”, but that was of little help to boosting growth in the near term. Consequently, it announced a **third round of TLTROs**; this provides banks with cheap borrowing every three months from September 2019 until March 2021 which means that, although they will have only a two-year maturity, the Bank was making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank’s eligible loans. However, since then, the downturn in EZ and world growth has gathered momentum; at its meeting on 12 September, it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a **resumption of quantitative easing purchases of debt;** (at its October meeting it said this would start in November at €20bn per month - a relatively small amount compared to the previous buying programme). It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and, unsurprisingly, the ECB stated that governments will need to help stimulate growth by ‘growth friendly’ fiscal policy.

On the political front, Austria, Spain and Italy have been in the throes of **forming coalition governments** with some unlikely combinations of parties i.e. this raises questions around their likely endurance. The latest results of two German state elections will put further pressure on the frail German CDU/SDP coalition government.

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 shadow banking systems. In addition, there still needs to be a greater switch from investment in industrial capacity, property construction and infrastructure to consumer goods production.

JAPAN - has been struggling to stimulate consistent significant GDP growth and 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.

WORLD GROWTH. Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support (i.e. subsidies) to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a **reversal of world globalisation and a decoupling of western countries** from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation. Central banks are, therefore, likely to come under more pressure to support growth by looser monetary policy measures and this will militate against central banks increasing interest rates.

The trade war between the US and China is a major concern to **financial markets** due to the synchronised general weakening of growth in the major economies of the world, compounded by fears that there could even be a recession looming up in the US, though this is probably overblown. These concerns resulted in **government bond yields** in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US). There are also concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks. The latest PMI survey statistics of economic health for the US, UK, EU and China have all been predicting a downturn in growth; this confirms investor sentiment that the outlook for growth during the year ahead is weak.

INTEREST RATE FORECASTS

The interest rate forecasts provided by Link Asset Services in paragraph 3.3 are **predicated on an assumption of an agreement being reached on Brexit between the UK and the EU.** On this basis, while GDP growth is likely to be subdued in 2019 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement is likely to lead to a boost to the rate of growth in subsequent years which could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

- In the event of an **orderly non-agreement exit**, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help

economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall.

- If there was a **disorderly Brexit**, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. Quantitative easing could also be restarted by the Bank of England. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

However, there would appear to be a majority consensus in the Commons against any form of non-agreement exit so the chance of this occurring has diminished.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.
- In the event that a Brexit deal was agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis.** In 2018, Italy was a major concern due to having a populist coalition government which made a lot of anti-austerity and anti-EU noise. However, in September 2019 there was a major change in the coalition governing Italy which has brought to power a much more EU friendly government; this has eased the pressure on Italian bonds. Only time will tell whether this new coalition based on an unlikely alliance of two very different parties will endure.
- Weak capitalisation of some **European banks**, particularly Italian banks.
- **German minority government.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The SPD has done particularly badly in state elections since then which has raised a major question mark over continuing to support the CDU. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until 2021.

- **Other minority EU governments.** Austria, Sweden, Spain, Portugal, Netherlands and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.
- In October 2019, the IMF issued a report on the World Economic Outlook which flagged up a synchronised slowdown in world growth. However, it also flagged up that there was **potential for a rerun of the 2008 financial crisis**, but his time centred on the huge debt binge accumulated by corporations during the decade of low interest rates. This now means that there are corporates who would be unable to cover basic interest costs on **some $19trn of corporate debt in major western economies,** if world growth was to dip further than just a minor cooling. This debt is mainly held by the shadow banking sector i.e. pension funds, insurers, hedge funds, asset managers etc., who, when there is $15trn of corporate and government debt now yielding negative interest rates, have been searching for higher returns in riskier assets. Much of this debt is only marginally above investment grade so any rating downgrade could force some holders into a fire sale, which would then depress prices further and so set off a spiral down. The IMF's answer is to suggest imposing higher capital charges on lending to corporates and for central banks to regulate the investment operations of the shadow banking sector. In October 2019, the deputy Governor of the Bank of England also flagged up the dangers of banks and the shadow banking sector lending to corporates, especially highly leveraged corporates, which had risen back up to near pre-2008 levels.
- **Geopolitical risks,** for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- **Brexit** – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- **UK inflation,** whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

APPENDIX B(2)

MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT

Under Regulation 27 of the 2003 Regulations, local authorities are required to charge MRP to their revenue account in each financial year. It should cover the gap between the Capital Financing Requirement (CFR) and grant income and capital receipts.

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (MRP). It is also allowed to undertake additional voluntary payments if desired (voluntary revenue provision - VRP). Any planned overpayments must be recorded clearly in the MRP statement.

MHCLG regulations have been issued which require the full Council to approve an MRP Statement in advance of each year; hence, the inclusion of this policy within the Capital Strategy.

The Council is required to calculate in each financial year a prudent provision to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits (asset life). MRP cannot be negative, and can only be zero if the CFR is nil or negative, or if the charge is fully reduced by reversing previous overpayments. A maximum asset life of 40 years can be used, except freehold land which can be 50 years.

In calculating MRP the Council must base its calculation on methods set out within 'guidance' issued by the Secretary of State under section 21(1A) of the Local Government Act 2003. Under that section local authorities are required to 'have regard' to this guidance. The extant guidance distinguishes between borrowing incurred prior to 2008 and that incurred in subsequent years. The Council did not incur borrowing to finance assets prior to 2008 and hence its options on which its MRP calculation is based are restricted to Options 3. and 4. as set out in guidance, as below:

Option 3: Asset Life Method

Where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP is to be determined by reference to the useful life of the asset.

There are two main methods by which this can be achieved, as described below.

(a) Equal instalment method

MRP is the amount given by the following formula:

$$\frac{A - B}{}$$

C

Where:

A is the amount of capital expenditure in respect of the asset financed by borrowing or credit arrangements.

B is the total provision made before the current financial year in respect of that expenditure.

C is the inclusive number of financial years from the current year to that in which the estimated useful life of the asset expires.

(b) Annuity method

MRP is the principal element for the year of the annuity required to repay over the asset's useful life the amount of capital expenditure financed by borrowing or credit arrangements. The authority should use an appropriate interest rate to calculate the amount. Adjustments to the calculation to take account of repayment by other methods during repayment period (e.g. by the application of capital receipts) should be made as necessary.

Option 4: Depreciation method

MRP is deemed to be equal to the provision required in accordance with deprecation accounting in respect of the asset on which expenditure has been financed by borrowing or credit arrangements. This should include any amount for impairment charged to the income and expenditure accounts.

Selected Charnwood calculation methods

- For assets with a life of 10 years or less, the straight line asset life method (Option 3 (a)) will be used
- For assets with a life in excess of 10 years, the annuity asset life method (Option 3 (b)) will be used.

The asset life method calculation requires estimated useful lives of assets to be input in to the calculations. These life periods will be determined by the Council's Chief Financial Officer (this is the Council's designated s151 Officer, a role currently held by the Strategic Director of Corporate Services), with regard to the statutory guidance and advice from professional valuers if required.

The Chief Financial Officer may also determine that if, in their opinion, the straight line method is more prudent for an asset with a life in excess of 10 years then this option may be used.

Generally, the straight line asset life method is considered appropriately prudent for assets with a relatively short term life (such as most types of plant and equipment). Assets purchased with a longer life will usually be land and buildings and hence an annuity asset life method will be used reflecting that such assets will in practice have a value at the end of the designated asset life. One aspect of the annuity asset life method is that it generates MRP payments that are relatively low in early years which then increase over the asset life. This structure of MRP is well-suited to commercial properties as the increase in MRP could be expected (broadly) to mirror increasing rental income created by periodic rent reviews.

The designated asset life of land and buildings, including commercial property for investment purposes, will usually be set at 40 years, in accordance with the guidance and in common with other local authorities.

In line with the extant guidance MRP will be not be charged until the later of the year after capital expenditure is incurred or the year after the asset becomes operational

The calculation of MRP is also 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.

APPENDIX B(3)

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 /	**** 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	£10m any one institution and £30m 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	5 Years
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 & (£12m for HSBC only) any one institution and £25m 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 since 2018. These investments will form part of the £30m limit for investments of over 365 days duration.

The Council will also add investments with Housing Associations of up to £5m, for up to a two year period. Prior to this the Council will undertake a separate due diligence exercise to ensure they have the minimum credit rating requirement and generally satisfy the Council's lending policuies.

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, a review of the accounting implications of new transactions will be carried prior to any investment decision.

APPENDIX B(4)

APPROVED COUNTRIES FOR INVESTMENTS @14/11/2019

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 Link 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

APPENDIX B(5)

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

APPENDIX B (6)

Current Investments as at 6th January 2020 (for information only).

For illustrative purposes only the Council's investments as at 6th January 2020 are set out below. Please note that these investments alter on a daily basis.

Institution	**Colour**	**Amount invested £m**	**Transaction Limit**	**Maturity Date**	**Time Limit**
National Westminster Bank PLC	Blue	4,000	7,000	05/02/2020	12 Months
Lancashire County Council	N/A	2,000	5,000	30/01/2020	5 Years
Wyre Forest District Council	N/A	2,000	5,000	09/10/2020	5 Years
Liverpool City Council	N/A	2,000	5,000	14/10/2020	5 Years
Santander	Red	8,000	8,000	180 Day Notice	6 Months
Sumitomo Mitsui Banking Corporation Europe	Red	3,000	8,000	13/01/2020	6 Months
Close Brothers	Red	5,000	8,000	24/04/2020	6 Months
Goldman Sachs international Bank	Red	2,500	2,500	35 Day Notice	6 Months
Goldman Sachs international Bank	Red	2,500	2,500	95 Day Notice	6 Months
Standard Chartered Bank	Red	3,000	8,000	183 Days	6 Months
Bank of Scotland	Orange	8,000	8,000	95 Days	12 Months
HSBC Bank	Orange	5,000	12,000	3 Months	12 Months
Money Market Funds	AAA Rated	13,840	18,000 in total	1 Day	12 Months
Property Funds	N/A	5,000	5,000 in total		240 Months
TOTAL		**65,840**			

APPENDIX B(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.

APPENDIX B(8)

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

APPENDIX C

Proposed amendments to the Financial Regulations and other areas of the Constitution

Proposed amendments to the Financial Regulations

Amendments are proposed to Section 16.5, 'Specific Financial Responsibilities' as set out below.

1. The heading, **'(b) Capital Expenditure'**, is modified to read, **'(b) Capital Expenditure, excluding Capital Expenditure in respect of commercial property acquired for investment purposes'**

2. A new heading (c) is inserted into the Financial Regulations entitled, **'(c) Capital Expenditure in respect of commercial property acquired for investment purposes.**

3. Text will be inserted under new heading (c) as follows:

> Periodically the Council will invest in commercial property for the purposes of making a financial return. Such investments (or divestments) may require actions in a time frame that is not naturally enabled by usual Council decision making processes. The standard processes in respect of Capital Expenditure are therefore modified in respect of commercial properties that are acquired for investment purposes.
>
> The Council approves the three-year Capital Plan. Funding for commercial property for investment purposes will be explicitly identifiable within the Capital Plan. Cabinet is able to make changes to the Capital Plan in respect of Capital Expenditure in respect of commercial property investment under the same conditions that apply to other capital expenditure.
>
> Executive decisions relating to the investment and release of funding for the purchase of individual commercial properties, providing available funding exists within the extant Capital Plan, will be delegated to the Leader, or another Cabinet Member to whom the Leader may delegate authority.
>
> Opportunity may allow the financially advantageous disposal of commercial properties. Approval of commercial property disposals will be delegated to the Leader or Cabinet Lead Member covering the finance portfolio, or other Cabinet Members to whom the Leader may delegate authority.

4. Subsequent headings under 16.5 will be re-referenced to reflect the insertion of new heading (c); hence, **'(c) Virement'** will become **'(d) Virement'**, etc. References within the body of the text will also be amended to reflect the insertion of the new heading.

5. **‘(f) Disposal of Assets’** will be re-referenced in line with the above and amended to read **‘(g) Disposal of Assets excluding commercial property assets that were acquired for investment purposes**.

The above changes require formal approval by Council as referenced in Recommendation 4. of this report

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Governance processes – for information

Financial Regulations

To enable the above changes to the Financial Regulations it will be necessary to update the Financial Procedure rules (a matter delegated to the Section 151 officer). It is intended that a summary of the updates will be presented to Cabinet at a forthcoming Cabinet report which will provide more detail covering the evaluation of opportunities and (potential) acquisition and disposal of commercial properties.

Delegation of Executive Functions

The nature of commercial property acquisitions is such that delegated authority will be required to complete transactions in a timely manner. Therefore arrangements for delegated executive authority will need to be put in place to enable the Strategic Director of Corporate Services to complete acquisition and disposal transactions in respect of commercial properties for investment purposes where approved funding exists within the Capital Plan (for acquisitions), and subject to pre-agreed procedures being undertaken.

Section 9E of the Local Government Act 2000 (as amended) gives authority to the Leader of the Council to arrange for Executive functions to be discharged by:

- himself/herself;
- the Cabinet;
- another Member of the Cabinet;
- a committee of the Cabinet, or
- an officer of the Council

The Leader of the Council can amend the scheme of delegation relating to Executive functions at any time. These decisions can take immediate effect, and the Constitution requires that they are reported to the next meeting of the Council.

Key Decisions and Exemption from Call-in

A key decision is an executive decision which is likely:

- To result in the council incurring expenditure which is, or the making of savings which are, significant having regard to our budget for the service or function to which the decision relates.

- To be significant in terms of its effects on communities living or working in an area comprising two or more wards in the borough

It is highly probable that any commercial property acquisition will exceed £150,000 in value, and therefore each purchase will be a key decision. However, due to the nature of the purchases being made (i.e. on the open market), it is unlikely that the required advance notice (28 days) for a key decision will be able to be given for each transaction, and therefore a General Exception notice will be published at least five days in advance of the proposed decision date.

In addition it would not be practical for the usual call-in arrangements for key decisions to be applied as any delay caused could result in a potential purchase falling through, and therefore it is proposed that the Chair of the Scrutiny Commission confer a blanket approval for decisions taken under this delegated authority to be exempted from Call-in under scrutiny procedure rule 11.9 within the Constitution. These arrangements will be put into place following approval of full Council and it is anticipated that the blanket approval from the Chair of the Scrutiny Commission be reviewed on an annual basis.

All cases of exemption from Call-in must be reported to the next relevant Council meeting, and this will ensure that Members are kept informed about each relevant acquisition that is made.

AUDIT COMMITTEE – 11TH MARCH 2020

Report of the Head of Strategic Support

Part A

ITEM INTERNAL AUDIT PROGRESS REPORT

Purpose of Report

The report summarises the progress against outstanding audits for the 2018/19 Audit Plan and progress in respect of the 2019/20 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 19 November 2019.

Recommendation

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:	Final Internal Audit Reports
Officers to contact:	Adrian Ward, 01509 634573 adrian.ward@charnwood.gov.uk Tracey Hayes, 01509 634805 tracey.hayes@charnwood.gov.uk

Part B

1. Progress against the 2018/19 and 2019/20 Audit Plans

1.1 Progress against the 2018/19 Audit Plan

General Audits – At the last audit committee there were four audits that remained to be completed from the 2018/19 Audit Plan (namely Decent Homes, Licensing, Car Parking and CCTV). All of these audits have now been completed.

1.2 Progress against the 2019/20 Audit Plan

General Audits - There are twenty eight general audits in the plan (ten key financial audits and eighteen strategic and service risk audits). To date five audits have been completed (Disabled Facilities Grants, Payroll, Income Collection, Housing Rents and GDPR); three are at draft report stage (Voids Management, Absence Management and Procurement) and four in progress (Council Tax, Capital Accounting, Housing Benefits and Council Tax Support and Responsive Repairs). A further eight audits are scheduled with services (four Key Financial Systems Audits and four strategic and service risk audits) and terms of reference have been issued.

Since the last Audit Committee, additional resource has also been procured from BDO to undertake another 4 general audits during March 2020:

Audit	**Audit Days**	**Scheduled**
Asset Management	10 days	Week commencing 30th March 2020
Strategic Communications	12 days	Week commencing 9th March 2020
Choice Based Lettings	12 days	Week commencing 23rd March 2020
Fleet Management	10 days	Week commencing 23rd March 2020

It is proposed that four of the remaining eight strategic and service risk audits are included in the 2020/21 audit plan (namely Building Control, Town Hall, Right to Buy and Project Management (to focus on Capital Programmes)) and the remaining audits (namely People Strategy, Food Safety, Charnwood Grants Management and Leisure Centre Contract) are removed from the plan with reasons detailed in Appendix A.

IT Audits – IT audits are undertaken by an external contractor and as scheduled the 2019/20 audit on Disaster Recovery has been completed. In addition, the remaining IT Audit on IT Helpdesk/Demand Management commenced in January 2020.

2. <u>Final Audit Reports Issued</u>

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	**Final Report Issued**	**Current Level of Assurance**	**Previous Audit Level of Assurance**	**Corporate Significance**
Decent Homes 2018/19	Nov-19	**Substantial**	Moderate	High

Audit	Final Report Issued	Current Level of Assurance	Previous Audit Level of Assurance	Corporate Significance
Income Collection 2019/20	Nov-19	**Substantial**	Substantial	High
Car Parking 2018/19	Dec-19	**Moderate**	Moderate	High
Licensing 2018/19	Dec-19	**Moderate**	Substantial	High
Housing Rents 2019/20	Dec-19	**Substantial**	Substantial	High
Payroll 2019/20	Jan-20	**Substantial**	Substantial	High
GDPR 2019/20	Feb-20	**Moderate**	Substantial	High
Procurement 2019/20	Feb-20	**Substantial**	Substantial	High
CCTV 2018/19	Feb-20	**Substantial**	Moderate	High

3. ICT 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	Final Report Issued	Current Level of Assurance	Previous Audit Level of Assurance	Corporate Significance
Disaster Recovery 2019/20	Jan-20	**Moderate**	Substantial	High

Since the last Audit Committee Internal Audit and the Information Technology Delivery Manager have met with BDO to discuss the best use of the resource for the remaining two years of the IT audit plan and the following has been agreed:

2020-21	**IT Change Control** - 10 days to be delivered in quarter one. **IT Application Controls** - 12 days to be delivered in quarter two. **IT 3rd Party Supplier Management** - 10 days to be delivered in quarter three. 32 days in total
2021-22	**IT Project Management -** 15 days to be delivered in quarter one. **IT and Cloud Strategy -** 12 days to be delivered quarter two. **Data Governance and Operational Cloud Security** - 15 days in quarter three. 42 days in total

4. Follow Up of Recommendations

The table below summarises the follow-up status of recommendations which were due to be implemented during the period October 2019 to January 2020.

The status of recommendations is as follows:

	Priority Level	Implemented	Not Implemented	No Further Action
Oct – Jan 2020	High	1	0	0
	Medium	10	1	1
	Low	6	2	0
Percentages		**82%**	**14%**	**4%**

5. Special Investigations

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

6. Performance Indicators for Internal Audit

The following summary outlines the results against the local performance indicators for Internal Audit for 2019/20.

Indicator	Target	Result	Notes
Percentage of clients that rated the performance of Internal Audit as satisfactory or higher.	90% (Annual)	See notes	Surveys currently being undertaken
Percentage of the agreed 2019/20 Internal Audit plan delivered (as at 14/02/2020).	90%	25%	See commentary in Section1.2 of report. Percentage completed based upon actual time spent on 2019/20 planned audits. A further 44 audit days are to be completed by BDO during March.
Percentage of agreed recommendations arising from internal audit reviews implemented by the agreed date (as at 31.01.20)	69%	82%	October – January 2020 (17/21 recommendations)

Appendices

Appendix A – Summary of progress against the 2018/19 and 2019/20 Audit Plans as at the 14th February 2020.

Appendix B – Summary of Final Audit Reports Issued

Appendix C – Recommendations not implemented by the Agreed Date as at 31st January 2020

Appendix A

PROGRESS AGAINST REMAINING 2018/19 AUDIT PLAN

2018/19 Audit Plan	Plan Days	Spent Days (14.02.20)	Status as at 14.01.20	Assurance Level	Corporate Significance
Strategic & Service Risk Audits					
Decent Homes Contract	15.00	17.00	Completed	**Substantial**	**High**
Licensing	10.00	12.00	Completed	**Moderate**	**High**
Car Parking	12.00	15.00	Completed	**Moderate**	**High**
CCTV	8.00	8.5	Completed	**Substantial**	**Medium**

PROGRESS AGAINST THE 2019/20 AUDIT PLAN

2018/19 Audit Plan	Plan Days	Spent Days (14.02.20)	Status as at 14.02.20	Assurance Level	Corporate Significance
Key Financial Systems					
Full Systems Audit					
Council Tax	10.00	8.0	Draft Report		
Creditors	10.00	0.5	In Progress		
Debtors	10.00	0.5	Scheduled for Q4		
Targeted Audits					
Payroll	3.00	2.50	Completed	**Substantial**	**High**
Accountancy and Budgetary Control	3.00	0.25	Scheduled for Q4		
Capital Accounting	2.00	1.00	In Progress		
Income Collection	2.00	2.50	Completed	**Substantial**	**High**
Housing Benefits and Council Tax Support	3.00	1.25	In Progress		
Non-domestic Rates	2.00	0.5	Scheduled for Q4		
Housing Rents	3.00	2.00	Completed	**Substantial**	**High**

2018/19 Audit Plan	Plan Days	Spent Days (14.02.20)	Status as at 14.02.20	Assurance Level	Corporate Significance
Quarterly Testing					
Treasury Management	2.00	0.00	Ongoing		
Bank Reconciliation	2.00	0.50	Ongoing		
Sub Total – KFS Reviews	**52.00**	**19.00**			
Strategic & Service Risk Audits					
NFI/Counter Fraud	25.00	0.00			
Right to Buy	10.00	0.00	To be included in 2020/21 plan		
Asset Management	10.00	1.00	Scheduled for Q4 - BDO		
Project Management	12.00	0.00	To be included in 2020/21 plan with focus on the Capital Programmes.		
Responsive Repairs (outsourced)	15.00	12.50	In Progress		
Voids Management (outsourced)	12.00	12.50	Draft Report		
Choice Based Lettings/Allocations	12.00	0.75	Scheduled for Q4 - BDO		
Food Safety	10.00	0.00	Proposed removal from plan as assurance taken from Food Standards Agency audits and inspections.		
Building Control	12.00	0.00	To be included in 2020/21 plan		
DFG – Annual Certification	3.00	3.50	Completed	**Substantial**	**High**
Town Hall	15.00	0.00	To be included in 2020/21 plan		
Charnwood Grants	10.00	0.00	Proposed removal from plan as no concerns around existing controls.		
Fleet Management	10.00	0.75	Scheduled for Q4 - BDO		
Leisure Centre Contract	12.00	0.00	Proposed removal from plan as a full review is due to be undertaken by specialists.		
Absence Management (outsourced)	12.00	12.00	Draft Report		
Development and Implementation of People Strategy	15.00	0.00	Proposed removal from plan as a review and refresh of the Strategy is planned.		

2018/19 Audit Plan	Plan Days	Spent Days (14.02.20)	Status as at 14.02.20	Assurance Level	Corporate Significance
Strategic Communication	12.00	0.75	Scheduled for Q4 - BDO		
Procurement (outsourced)	12.00	14.00	Completed	**Substantial**	**High**
GDPR (outsourced)	12.00	13.50	Completed	**Moderate**	**High**
Sub Total – Strategic & Services Audits	**231.00**	**70.50**			
IT Audit (delivered by BDO)					
Cyber Security	16.00	16.00	Completed	**Moderate**	**High**
Disaster Recovery	13.00	13.50	Completed	**Moderate**	**High**
IT Helpdesk/Demand Management	8.00	6.00	In Progress		
TOTAL IT	**37.00**	**35.50**			
Other Work					
Recommendations - Follow Ups	20.00	12.25	Ongoing		
Ad Hoc Investigations/Contingency	30.00	2.75			
Allowance to complete 2018/19 Audits	10.00	0.00			
Sub Total – Other work	**60.00**	**15.00**			
TOTAL – Audit Plan (not including IT externally resourced audit)	**380.00**	**140.00**			

Appendix B

SUMMARY OF FINAL AUDIT REPORTS ISSUED

Decent Homes 2018/19

1. Background

The Council currently has in place a contract for the delivery of the Housing Capital Programme improvements to Charnwood's tenants' and leaseholders' homes. The contract was awarded to Fortem Solutions Limited for a period of five years with the option of two extension periods, each of two years. The contract commenced on 1st April 2018 and the estimated spend in 2018/19 is £3.85 million.

The management and monitoring of the contract falls under the responsibility of Landlord Services within the Housing, Planning, Regeneration and Regulatory Services Directorate.

2. Executive Summary

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.

Overall, we conclude that there are appropriate arrangements in place to manage the contract with Fortem Solutions Limited, for the delivery of the Housing Capital Programme improvements. However, we have raised two low level recommendations for the Council to address. Both of the recommendations are in relation to improving the process used to monitor the contractor's performance throughout the duration of the contract.

Corporate Significance

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

- General risk of financial loss greater than £100,000
- Suspected cases of fraud or corruption over £10,000
- Service failures would have significant impact on customers
- Risk of serious reputational damage

2.2 Key Findings

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

- The Council has various groups in place, Core Group, Operations, Commercial & Financial and Customer & Social Value, which meet regularly to ensure that the contract is appropriately managed. Meetings are attended by representatives from both the Council and the contractor and documented appropriately on a shared drive for transparency. Review of the meeting minutes showed sufficient discussion around progress of work, budgets and valuations.
- The contract outlines 11 KPIs, with a breakdown of the calculation method, target rate and minimum level of acceptable performance. As per the contract, Fortem records the necessary data which allows for the Council to monitor and discuss performance during the Core Group meetings.
- To ensure a high level of service by the contractor, client satisfaction is continuously monitored and analysed through the use of surveys to residents post-work completion.
- There is a corporate Council-wide complaints procedure that is used when residents wish to raise a concern. The three-stage approach is tracked using the Council's LAGAN system, and results are monitored at the Customer & Social Value Group. It is noted that the contractor is currently in the process of launching a web-based complaints system (3 C's), which will allow for a centralised system that both Fortem and the Council will have access to.
- Within the contract, there is a Pricing Schedule which details costs attached to each type of work to be provided by Fortem. These costs have been entered onto the QL system by the Housing Management System Team. This ensures that when an order is raised, the agreed cost is already pre-determined. For a sample of 15 orders that have completed and paid between April 2018 and September 2019, all amounts paid matched the Schedule submitted in the tender.
- For instances where variations to work undertaken are required, approval must be gained beforehand. The Service Connect system allows the Council's surveyors to analyse and appropriately approve/reject any variation requests made by the contractor. Only once all work has been completed, can any additional payments be made.

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:

- Actions plans do not have target completion dates and are not subject to a rating system.
- Diversity and Environmental KPIs have not been reported on annually as per the contract.

3. Action Plan

Observation	Risk	Recommendation	Priority	Response/Agreed Action	Officer Responsible	Action Date
1. Actions plans do not have target completion dates and are not subject to a rating system	A lack of procedures in place to ensure that the contract is appropriately managed which could lead to a breach of contract conditions by either party	1. Management should consider the need to retrospectively implement target dates for actions that are still currently open, and for future actions that are added to the plans. This will allow for greater monitoring of the contractor's performance. A RAG rating system should be applied so that there is a clear order of priority for the actions.	Low	Agreed.	Repairs and Investment Manager	January 2020
2. Diversity and Environmental KPIs have not been reported on annually as per the contract	Inadequate arrangements in place for monitoring the contractor's performance against agreed Key Performance Indicators leading to poor	2. The Council should ensure that all KPI data is received by the contractor and discussed at Core Group meetings, as per the KPI Handbook. As the target annual reporting date for	Low	Agreed.	Repairs and Investment Manager	January 2020

	performance not being identified	the Diversity and Environmental KPIs has now passed, the Council should request the data from the contractor and include appropriate discussion of it in the earliest possible Core Group meeting.				

Income Collection 2019/20

1. Background

The cash receipting system is one of the identified key financial systems, which are audited on an annual basis. The cash receipting system is operated by the Customer Services Centre within Customer Services which provides a centralised service for the collection and receipting of income received by the Council.

The Accountancy Control Section, within Finance, is responsible for reconciliations of the cash receipting system to the bank account and general ledger.

2. Executive Summary

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.

Based upon the work undertaken during the review, there are established procedures in place for the posting of payments to the appropriate customer accounts.

Bank reconciliations had been undertaken on a monthly basis, in a timely manner and had been independently reviewed and although additional supporting documentation had to be requested; all figures could be justified.

Corporate Significance

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

- General risk of financial loss greater than £100,000
- Service failures would have significant impact on customers
- Risk of serious reputational damage (national press/TV)

2.2 Key Findings

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

- Bank reconciliations are completed on a monthly basis and are independently reviewed for accuracy.
- There are established procedures in place to ensure that cash, card and cheque payments received are processed and recorded accurately and timely.

3. Action Plan

There are no recommendations for management consideration.

Car Parking 2018/19

1. Background

The Council currently operates 11 car parks, 5 are situated within Loughborough and there are 6 village car parks in various locations around the Borough. The two main shopper's car parks in Loughborough (Beehive Lane and Granby Street) operate on a 'pay on foot' basis and the remainder on a 'pay and display' basis. No parking charges are made in respect of village car parks. Civil parking enforcement is administered by Leicestershire County Council and a reimbursement made to this Council for costs incurred by the Street Management service in operating the enforcement process.

In addition, miscellaneous income is collected for the car park at the Outwoods and reconciled by administration in Open Spaces and this was examined as part of this audit. The budgeted net controllable income across all chargeable car parks for 2018/19 is £890,000 (excluding the income collected for the Outwoods carpark) and the budgeted income due from the County Council in respect of reimbursement of civil parking enforcement costs is £264,593.

The management of car parking within the Council, other than the Outwoods, car park falls under the responsibility of Street Management, situated within Regulatory Services.

2. Executive Summary

2.1 Overview

ASSURANCE RATING – MODERATE ASSURANCE	CORPORATE SIGNIFICANCE – HIGH

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.

Based on the work undertaken we conclude that overall there are appropriate arrangements in place to manage the council-owned car parks, including the collection of income generated through car parking. However, there were some areas for improvement identified.

Although evidence has been provided to confirm that car parks are maintained and appropriate fire and structural checks completed there is no documented inspection programme in place. In respect of reconciling income received at the pay on foot car parks, whilst there are procedures in place to ensure that credit card income received at machines and processed by Elavon Merchant Services are reconciled, the reconciliation does not currently ensure income processed has been correctly received in the Council's bank account and in turn has been recorded in the general ledgers.

Corporate Significance

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

- General risk of financial loss greater than £100,000
- Service failures would have significant impact on customers
- Risk of serious reputational damage (local/national press/TV/radio)

2.2 Key Findings

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

- Cash is collected, counted and banked by the Cash Collection agent, Kings Armoured Guards. Regular reconciliations take place to verify the amounts banked agree to receipts from the parking machines.
- All car parks have systems in place that record income. In addition the pay on foot car parks (Beehive Lane and Granby Street), have more sophisticated software that monitors car park usage in more detail. For example, the software can show a live view of each pay machine showing every type of coin being inserted in the machine when a customer is paying. The software also has the function to run a report showing each time the machines have short-changed a customer or any other instances of faults that have resulted in customer not receiving their change in full
- The Council has an agreement with Leicestershire County Council to recharge staffing costs to the County for the provision of Civil Enforcement Officers across the county to issue Penalty Charge Notices for County roads. The Council provide the County Council with a breakdown of these costs at the start of the financial year. The reimbursements occur quarterly, where the Council invoice the County Council for the provision of wardens.

- The Council invoice the County Council quarterly for the PCN's issued in Council Car parks. The Council also raise a purchase order to reimburse the County Council for the processing charges at a rate of £8.38 per PCN processed.

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:

- Although there is evidence that car park inspections/maintenance have been carried out there is currently no written inspection schedule in place which sets out the inspections required and frequency of those inspections in relation to each car park.
- There no written procedures in place documenting the roles and responsibilities between the Council and Leicestershire County Council in respect of financial procedures for charging and reimbursing each other.
- Although there are procedures in place to ensure that credit card income received at Pay on Foot machines is processed, by Elavon Merchant Services, there is currently no process in place to ensure income processed has been received in the Council's bank account and recorded in the general ledgers. This has not yet been possible due to complexities in how the income is recorded in the financial management system and in delays in income crediting the bank account.
- Reviews undertaken in respect of fees and charges have not been documented via the Council Delegated Decisions Process. The last documented review of fees was undertaken when the Parking Places Order was completed in 2014.
- Refunds reasons are not always recorded on the receipts and there is not policy in place documenting under what circumstances a refund will be made.

3. Action Plan

Observation	Risk	Recommendation	Priority	Response/Agreed Action	Officer Responsible	Action Date
1. Although there is evidence that car park inspections/maintenance have been carried out there is currently no written inspection schedule in place which sets out the inspections	Insufficient / inadequate planned and/or responsive maintenance leading to facilities and premises failing to meet required standards leading to	1. Create an inspection schedule which details the different compliance checks/inspections that need to be undertaken and the frequency of the	Medium	Action - Inspection schedule to be developed in conjunction with Property Services to confirm frequency of relevant	Car Parks & Civil Parking Enforcement	February 2020

Observation	Risk	Recommendation	Priority	Response/Agreed Action	Officer Responsible	Action Date
required and frequency of those inspections in relation to each car park	possible closure of premises resulting in a loss of income and/or possible litigation and reputational damage in respect of injuries caused to users of the car park. This is currently a medium priority finding. If this is not resolved in the next 3 months we believe this would represent a high priority.	checks for each site. e.g. a record of each site, nature of compliance check, date undertaken, initials of officer who undertook the check, narrative for issues identified and any actions that need to be taken. 2. Management monitoring procedures are put in place to ensure checks are being undertaken in accordance with the inspection schedule	Medium	inspections by both Street Management and Property Services. Dates of inspections can be recorded against these inspections and incorporated in Regulatory Services Performance Framework 2020-21, Performance Indicators and Team Plan Tasks.		
2. There no written procedures in place documenting the roles and responsibilities between the Council and Leicestershire County Council in respect of financial procedures for charging and reimbursing each other.	Non enforcement of Parking Contravention Notices charges correctly and in agreement with contract may result in disputes arising and/or loss of income due to fraud or error possibly leading to	2. The Council should produce written guidance for Street Management Officers in respect of the arrangements and responsibilities of the council and LCC for the payment of PCN's and quarterly	Low	Reconciliations are completed for the PCN income and agreed with LCC and staff undertake these. Action - Written procedures to be developed for checking PCNs	Car Parks & Civil Parking Enforcement	February 2020

Observation	Risk	Recommendation	Priority	Response/Agreed Action	Officer Responsible	Action Date
	legal challenge and budget constraints.	charges.		have been paid, reimbursement of income and correct payment of costs charged by LCC Notice Processing Unit.		
3. Although there are procedures in place to ensure that credit card income received at Pay on Foot machines is processed, by Elavon Merchant Services, there is currently no process in place to ensure income processed has been received in the Council's bank account and recorded in the general ledgers. This has not yet been possible due to complexities in how the income is recorded in the financial management system and in delays in income crediting the bank account.	Reconciliations between the bank account and the general ledger are not undertaken on a regular basis, leading to anomalies not being identified/investigated in a timely manner, which may lead to fraud or error going undetected and possible financial loss to the Council.	3. Management establish how income is recorded in the general ledgers so that a full reconciliation can be undertaken which ensures all income has been banked and accounted for.	Medium	Income from Credit Cards is being received in the Council's Accounts and checked by staff, but reconciliations of exact numbers needs to be completed. Action - Finalise procedures in conjunction with CBC Financial Services for the reconciliation of the income received from the Credit Card Payment Provider and recorded in the relevant Car Park Ledger account.	Car Parks & Civil Parking Enforcement	March 2020

Observation	Risk	Recommendation	Priority	Response/Agreed Action	Officer Responsible	Action Date
4. Reviews undertaken in respect of fees and charges have not been documented via the Council Delegated Decisions Process. The last documented review of fees was undertaken when the Parking Places Order was completed in 2014.	Failure to set and approve appropriate charges may lead to non- compliance with financial procedures. Current fees and charges do not cover costs and not comparable to other parking options which could lead to a loss in income.	4. Parking fees and charges are reviewed, appropriately documented and approved in accordance with Financial Procedures Rules.	Low	Parking Tariffs are discussed with Lead Member on an annual basis and only recorded through a DD if changed. Action - Parking Tariffs to be reviewed in line with the Council's Fees & Charges Policy, documented through the Delegated Decision process, even if remain unaltered, in consultation with relevant Lead Member.	Car Parks & Civil Parking Enforcement	March 2020
5. Refunds reasons are not always recorded on the receipts and there is not policy in place documenting under what circumstances a refund will be made.	Refunds are given for unjustified reasons. An inadequate audit trail which could lead to error or fraud.	5.1 A policy is put in place which documents under what circumstances a refund will be given and this reason is documented on the refund receipt.	Low	Very small amounts of refunds involved, so very low risk. Procedures are currently in place. Action - All staff involved in offering refunds to be reminded on procedure.	Car Parks & Civil Parking Enforcement	February 2020

Licensing 2018/19

1. Background

Charnwood Borough Council is responsible for issuing a number of licences, permits and registrations. The majority of these are administered and enforced by the Licensing Team, together with the issue of licences on behalf of the Environmental Health Service. However, this audit will concentrate on those issued directly by the Licensing Team, across all licence types (13 in total).

The Council follow strict guidelines and legislation before issuing licences and can impose a range of conditions.

The Licensing Team sits within Regulatory Services, within the Housing, Planning & Regeneration and Regulatory Services Directorate.

2. Executive Summary

2.1 Overview

ASSURANCE RATING – MODERATE ASSURANCE	CORPORATE SIGNIFICANCE – HIGH

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.

There are established procedures in place for the processing of new applications/renewals and based on the work undertaken the controls in place are generally satisfactory however some areas of improvement have been identified. In particularly ensuring a consistent approach is used by all officers so that sufficient evidence is retained or recorded to justify the issuing of licences.

Corporate Significance

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

- General risk of financial loss greater than £100,000
- Service failures would have significant impact on customers
- Risk of serious reputational damage (national press/TV)

2.2 Key Findings

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

- Fees and charges are set in accordance with legislation and council policy.
- Income received is balanced on a daily basis, transactions had been recorded correctly and timely and income is banked in a timely manner.
- There are clear policies in place for Enforcement and decisions are monitored on a quarterly basis.

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:

- Testing on the administration of applications showed that there can be variances with how applications are processed dependant on the officer processing them.
- Two cases were identified whereby the appropriate fees had not been paid as unbanded properties in respect of premises licences were not followed up at a later date
- Dates for medical assessments in relation to vehicle licences were incorrect in 7 out the 10 cases tested.
- In respect of private hire vehicles no checks are completed to establish where vehicles are fitted with meters.
- For personal licences although proof of identify had been supplied this was not checked to confirm the age of the applicant.
- In 6 of the 10 personal licence applications tested the receipt of licence form had not been returned by the applicant.
- The process of determining the number of Temporary Event Licences an applicant has had is open to error as Licensing Officers have to complete various system searches by name and location to determine quotas.

- Only current notifications to the Police and Environmental Health in respect of Temporary Event Notices are retained so there was no evidence presented for the sample selected.
- All officers (who need to input) using the swift system have administrator access rather that user access.

3. Action Plan

Observation	Risk	Recommendation	Priority	Response/Agreed Action	Officer Responsible	Action Date
1. Testing on the administration of applications showed that there can be variances with how applications are processed dependant on the officer processing them.	The process is open to error and fraud.	1. There should be consistency within the team on how licences are processed and documentation recorded/retained.	Low	Implement additional training for officers. Agenda item to be introduced at team meetings re training, starting in January 2020, allowing procedures to be reviewed and training sessions/dates to be booked in diary for Team. Review and remind staff of procedures. Introduce monthly spot check monitoring on licence types.	Licensing Manager	March 2020 & ongoing
2. Two cases were identified whereby the appropriate fees had not been paid as unbanded properties in	Loss of income.	2. More robust procedures are put in place to ensure that where properties are unbanded at the time of the premises application the correct	Medium	Update procedures to include diary task list. Email sent to ICS; to ensure tasks not missed and management can review. To explore, use of Sharepoint, Audit and	Licensing Manager	March 2020 & ongoing

respect of premises licences were not followed up at a later date.		banding is established at a later date and the appropriate charges are made.		Risk calendar Licensing use VOA website to obtain business rates. Add paragraph to letters to advise applicant that annual fee may be amended. Management to monitor at team meetings work outstanding/required.		
3. Dates for medical assessments in relation to vehicle licences were incorrect in 7 out the 10 cases tested.	Non-compliance with policy. Unfit drivers on the road.	3. A cleansing exercise is undertaken to ensure drivers medical assessment renewal dates have been correctly recorded, where appropriate dates updated and expired ones chased to ensure all drivers have had a medical check in the last 3 years.	Medium	Investigate with ICS and Swift back office system how to extract data and once obtained carry out cleansing exercise.	Licensing Manager	March 2020
4. In respect of private hire vehicles no checks are completed to establish where vehicles are fitted with meters.	Non-compliance to policy. Members of the public are overcharged.	4. Procedures are put in place to ensure that private hire vehicles with meters fitted are identified and the appropriate meter check documentation is obtained.	Medium	Amend vehicle test sheet and notify the taxi testing garages as to what is needed, re meter and tariff checks. Review application form and vehicle renewal letter to include notes.	Licensing Manager	March 2020

5. For personal licences although proof of identify had been supplied this was not checked to confirm the age of the applicant.	Licences maybe issued to underage applicants	5. Procedures are put in place to check the age of applicants in respect of personal and temporary event notice licences and ensure that this is documented as checked.	Medium	Speak to Swift, licensing database provider as to whether a note or check box can be added to advise date of birth checked. Update staff at Team meetings.	Licensing Manager	June 2020
6. In 6 out of the 10 personal licence applications tested the receipt of licence form had not been returned by the applicant.	Non-compliance to procedure.	6. Management consider whether this part of the application process is necessary and what value it brings.	Low	Remove it from letter as not a legal requirement.	Licensing Manager	January 2020
7. The process of determining the number of Temporary Event Licences an applicant has had is open to error as Licensing Officers have to complete various system searches by name and location to determine quotas.	This process is open to error which could lead to the issue of a licence to an applicant who has reached their quota.	7. Management consider how quotas in respect of Temporary Event Licences could be tracked more efficiently.	Low	Investigate with Swift back office system as to how to extract duplicate addresses and once list obtained carry out Cleansing exercise. Identify with Swift potential for reports on Number of TENs received and dates. Planned replacement of back office system in 2020-21.	Licensing Manager	June 2020

8. Only current notifications to the Police and Environmental Health in respect of Temporary Event Notices are retained so there was no evidence presented for the sample selected.	There would be insufficient evidence to defend any disputes.	8. Consideration by the Police and Environmental Health is documented on the system (for example in notes) to document when Licensing made 3rd parties aware of a temporary event notice.	Low	Ensure that served paper copies scanned in and kept for 2 years from date of submission. Same to be done for GOV.UK applications.	Licensing Manager	March 2020
9. All officers (who need to input) using the swift system have administrator access rather that user access.	System misuse, fraud and manipulation of data.	9. Management consider whether the system is still fit for purpose and review their options for ensuring service efficiency and excellent customer service.	Medium	Contact software supplier to check the user basis. In interim check during management monitoring. Reminder needed to staff re misuse etc. Talk to ICS re back up.	Licensing Manager	March 2020

Housing Rents 2019/20

1. Background

The collection of housing rents is one of the key financial systems for which assurance is required to be provided annually.

The Council's housing stock as at November 2019 is 5,565 dwellings and the budgeted rental income for 2019/20 (net of budgeted voids) is approximately £20.548 million.

The calculation of the annual rent debit is undertaken within Finance and the collection of housing rents falls under the responsibility of Rents and Income Management.

2. Executive Summary

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.

Based on the audit work undertaken during the review, it was found that reconciliations between the rents system and the general ledger and the benefits system are undertaken on a regular basis and there are adequate procedures in place to ensure all rent is accurately calculated and charged in respect of new tenancies.

Corporate Significance

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

- General risk of financial loss greater than £100,000
- Service failures would have significant impact on customers
- Risk of serious reputational damage (national press/TV)

2.2 Key Findings

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

- Reconciliations between the rents system and the general ledger and the benefits system are undertaken on a regular basis.
- There are adequate procedures in place to ensure all rent is accurately calculated and charged in respect of new tenancies.

3. Action Plan

There are no recommendations for management consideration.

Disaster Recovery 2019/20

1. Background

System resilience is an ability of a system to withstand a major disruption within acceptable levels, and to recover within an acceptable time.

In computing, resilience is the ability to provide and maintain an acceptable level of IT systems in the face of faults and challenges. Threats and disruptions can range from simple misconfigurations to large-scale breakdowns or targeted attacks.

With an increasing reliance on IT in local government, the Council needs to ensure their IT systems are appropriately protected to prevent any significant disruption and can be recovered quickly to limit any impact on customer services.

2. Executive Summary

2.1 Overview

ASSURANCE RATING – MODERATE ASSURANCE	CORPORATE SIGNIFICANCE – HIGH

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.

Overall, we conclude that the control framework in place for the recovery and restore of critical systems and servers in place by the Council is adequately designed and operationally effective however management will need to address areas of risk highlighted in this review to ensure a robust approach is maintained to mitigate threats to critical systems and servers in the event an incident was to occur.

Corporate Significance

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

- General risk of financial loss greater than £100,000
- Service failures would have significant impact on customers
- Risk of serious reputational damage (national press/TV)
- 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 are adequate measures in place to prioritise business critical systems and servers belonging to the council. The council operates a rank based system with the highest criticality rank being '1' and the lowest rank for non-critical systems and servers ranked '3'.
- Recovery time objectives have been defined with priority 1 systems and servers targeting a resolution time of 48 hours or less, priority 2 within 3 working days and priority 3 within 1 week and have been agreed with relevant stakeholders..
- A business impact assessment has been conducted based on the initial impact assessment template located in the 'team recovery plan' section of the IT Disaster recovery plan.
- Backup policies are in place and located within the ICT Infrastructure policy (section 13, Page 18). These policies undergo reviews on an annual basis with the most recent review taking place in May 2019.
- Incremental backups were successfully run on the 10/08/2019 and occur on a daily basis during the week as per the agreed schedule policies.
- Annual reviews take place for the IT Disaster Recovery Plan, and the last review for the plan took place in May 2019.
- References in the plan have been made to identify single points of failure where the cloud system implemented by the Council is directly linked to the telephone system used. Management are assessing the cost of installing a secondary connection between the cloud and telephone systems. This would be sourced from a different provider and offsite.
- There is sufficient coverage with third party providers such as Capita Payments & Leicester City Council for the recovery of critical IT systems.

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:

- No training in place to key officers for disaster recovery and business continuity arrangements.
- No regular stress testing for the Disaster Recovery Plan or review in line with the Business Continuity plans.
- No references made in the Disaster Recovery Plan to specific roles for key officers.

3. Action Plan

Observation	Risk	Recommendation	Priority	Response/Agreed Action	Officer Responsible	Action Date
1. No regular testing for the Disaster Recovery Plan in line with the Business Continuity plans	Lack of testing will lead to a lack of preparation in the event a disaster was to occur increasing the threat level to critical systems and servers.	1. Develop a schedule for routine testing of the business continuity and disaster recovery plan and ensuring any potential resource constraints or deficiencies of the plans are identified and accommodated for.	Medium	Options are currently being investigated for future business continuity support, including updating, testing and training processes.	Head of Strategic Support	May 2020
2. No references made in the Disaster Recovery Plan to specific roles for key officers.	Impacts of a disaster when occurring are heightened due to key officers not having a reference to specific functions to mitigate damages to critical systems	2. IT Disaster recovery plans should be updated alongside the business continuity plans to highlight areas of responsibilities and provide a reference point to key officers.	Medium	As recommendation one.	Head of Strategic Support	May 2020

Observation	Risk	Recommendation	Priority	Response/Agreed Action	Officer Responsible	Action Date
	and servers.					
3. No training in place to key officers for disaster recovery and business continuity arrangements.	Key Officers will not have the capabilities to be able to resolve incidents and therefore not be able to ensure actions required to mitigate threats to critical systems and servers are actioned.	3. Introduce an annual training program ensuring key officers are prepared for any potential threat the Council could face to critical systems and servers. By ensuring annual completion new potential threats can be highlighted beforehand.	Medium	As recommendation one.	Head of Strategic Support	May 2020

Payroll 2019/20

1. Background

The payroll system is one of the identified key financial systems, which are audited on an annual basis. The payroll function within Charnwood Borough Council is located within Financial Services and provides a centralised service for the payment of salaries and wages to employees of the Council.

2. Executive Summary

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.

Based on the work undertaken it is evident that there are established procedures in place and appropriate controls is place in respect of overtime and reconciliations. However, overtime testing found that the submission and authorising of overtime varies in the type of documentation supplied to Payroll.

Corporate Significance

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

- General risk of financial loss greater than £100,000
- Service failures would have significant impact on customers
- Risk of serious reputational damage (national press/TV)

2.2 Key Findings

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

- Reconciliations between the payroll system and the general ledger and bank account are undertaken on a regular basis.
- Overtime payments are not paid at the correct rate or are appropriately authorised prior to payment

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:

- Whilst undertaking the testing on overtime it was noted that there are still various types of documents being submitted for the claiming of overtime and in some cases information is missing. For example, payroll number and the reasoning behind the overtime.

3. Action Plan

Observation	Risk	Recommendation	Priority	Response/Agreed Action	Officer Responsible	Action Date
1. Whilst undertaking the testing on overtime it was noted that there are still various types of documents being submitted for the claiming of overtime and in some cases information is missing. For example, payroll number and the reasoning behind the	Errors are more likely to go undetected as the information is presented in many different ways. The audit trail is unclear.	1. Management should consider aligning overtime records so that officers use an approved template or an electronic means for the submission of overtime to ensure consistency across the organisation.	Low	Due to the current upgrade of iTrent and the complications of conversation with the cloud, aligning forms and making them electronic cannot be considered at this time. However, this may be considered	Senior Payroll Officer	No Further Action

Observation	Risk	Recommendation	Priority	Response/Agreed Action	Officer Responsible	Action Date
overtime.				at a later date.		

General Data Protection Regulations 2019/20

1. Background

From May 25th, 2018, the General Data Protection Regulations (the GDPR) has replaced the Data Protection Act 1998 as the regulation governing the protection of data in the UK. As a data controller, the Council is obliged to comply with this new regulation and a programme of work is undertaken to implement the necessary governance framework.

The transition from operating under the Data Protection Act 1998 (DPA) to the GDPR increases the risk of significant financial and reputational damage should the security of the Council's information be found to have been breached.

The UK's withdrawal from the EU may also affect the 'legal obligation' lawful basis (which is under EU Member State law); hence following exit from the EU organisations may not be able to process EU citizens' personal data under this lawful basis by relying solely on UK law.

2. Executive Summary

2.1 Overview

ASSURANCE RATING – MODERATE ASSURANCE	CORPORATE SIGNIFICANCE – HIGH

Assurance

Internal Audit can give moderate assurance to those charged with governance. Whilst there are no critical 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.

Overall, we conclude that the control framework in place for the management of GDPR compliance within the council is adequately designed and operationally effective, but management need to address the areas of risk identified from this review to ensure a robust approach to GDPR compliance is maintained.

Corporate Significance

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

- General risk of financial loss greater than £100,000
- Service failures would have significant impact on customers
- Risk of serious reputational damage (national press/TV)
- 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:

- Data Privacy Notice is in place and specifically covers the purpose of processing data, who data is shared with, any transfer out of EU to external companies and any automated data profiling.
- The Data Protection Impact Assessment template in place covers the purpose of data processing as well as an assessment on privacy risks, and also includes documented steps to mitigate risks highlighted previously.
- We confirmed that the Data Protection Impact Assessment template makes reference to ensuring GDPR risks and mitigation plans related to specific projects are captured according to ICO guidance.
- The rights of individuals as data subjects are incorporated into the Council's ways of working with references made to help people exercise their rights, protect the interests of applicants and ensure interest of third parties are considered by the Council.
- In 2019 there were a total of six data breaches were determined to be high risk from the DPO’s assessment due to potential adverse impact and risk to the data subjects. Following further evidence provided and additional testing conducted in January we were able to confirm that all high risk breaches were reported to the ICO within the statutory requirement of 72 hours from the time the breach was confirmed.

- At the time of testing the Information Asset Register (IAR) was undergoing its review and update. An updated IAR was provided in January 2020 and it was confirmed that two new systems had been included in the register, hence is up to date.
- Although a formal procedure for obtaining the oral or written consent from data subjects, where the Council has determined that consent is needed (i.e. marketing and commercial communications and activities). We did confirm that mechanisms which record consent from mailing lists are in place.

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 no Information Governance committee or working group to provide oversight and accountability for the Council.
- Data Protection Impact Assessments have not been completed for all new project and systems by service areas
- We found that the Council has a Subject Access Request timeline spreadsheet in place; however, we found that nine out of 40 requests logged in 2019 did not respond to data subjects before the one month deadline. Reasons were not noted corresponding to delays in the spreadsheet.
- We identified that the Data protection policy has not been finalised and signed-off by the Corporate Director.
- We confirmed that there was no documentation available to evidence compliance to the retention periods in place to monitor and check adherence to the Record of Processing Activities (RoPA) retention periods.
- We found 23 existing contracts have not been updated by the Legal team with GDPR contractual addendums put in place as per ICO guidance.
- 82.3% of the target number of staff members (i.e. excluding cleaners) completed the new data protection training that was launched in December 2018 but the Council implements currently an aspirational target percentage of 100% which looks unlikely to be met by end of the year. With not enough time to follow up and ensure this target will be met.

3. Action Plan

Observation	Risk	Recommendation	Priority	Response/Agreed Action	Officer Responsible	Action Date
1. There is no Information Governance committee or working group to provide	With no data protection oversight at all, this poses a risk of poor governance	Senior management should develop a Terms of Reference for an Information Governance (IG)	High	A proposal will be taken to CLT to agree and establish a n Information	Strategic Director of Corporate Services	March 2020

oversight and accountability by the Council.	as well as no accountability in place to identify who's responsible for accountable reviews of data protection queries within the council.	Board with members identified and a chair appointed. The IG Committee Board should meet on a routine basis to monitor compliance against GDPR compliance and information governance at a strategic level. All relevant stakeholders should be identified and the IG Roles and Responsibilities should be defined and communicated.		Governance Working Group (IGWG)		
2. Data Protection Impact Assessments have not been completed for all new project and systems by service areas	Not assessing the privacy implications of new and existing processes increases the risk of the Council being in breach of the requirements of the GDPR, which could result in financial and reputational harm.	The IG Board should ensure that a privacy impact assessment is performed when: •A new project involving personal identifiable information is introduced •An existing project that involves personal identifiable information is changed.	Medium	This will become a standing agenda item for the IGWG. The Data Protection and Information Security Officer will continue to raise awareness of DPIA directly with teams to ensure they are completed appropriately. In addition, the DP	Strategic Director of Corporate Services & Data Protection and Information Security Officer	April 2020

		The IG Board should also assess its existing ways of working and, where necessary, makes changes so that they comply with the principle of Privacy by Design.		Policy informs managers regarding when to complete / consider a DPIA.		
3. We found that the Council has a Subject Access Request timeline spreadsheet in place, however, we found that 9/41 requests logged in 2019 were not responded within the one month deadline.	Failing to comply with the requirements for responding to individual requests set out under the GDPR would result in the Council being in breach. This would increase the risk of action being taken against the Council, resulting in financial and reputational damage.	Management should ensure that all the responses to subject access requests should be provided within a timescale of one calendar month as per the GDPR requirements.	Medium	Contingency has now built in between the roles of the DPO and the Customer Experience Manager.	Data Protection and Information Security Officer	Implemented with immediate effect.
4. We identified that the Data protection policy has not been finalised and signed-off by the Corporate Director.	Absence of appropriate formalised Data Protection policies increases the risk of the Council taking actions that could lead to	The Data Protection policy should be approved by the Corporate Director before being issued out to members of staff on the intranet, providing a level of	Medium	The Data Protection Policy has now been signed off and published.	Strategic Director of Corporate Services	Implemented

	breach of its regulatory obligations.	assurance that the policy is in line with legal expectations when managing data within the Council.				
5. We concluded that there are inadequate methods in place to monitor or check compliance against RoPA retention periods.	Absence of appropriately monitoring retention schedules and not erasing the data when no longer required will increase the risk that it becomes irrelevant, excessive, inaccurate or out of data.	The Council should make adjustments to document and ensure they are adhering to the Local Government Association (LGA) retention schedule timeframes when managing data obtained and ensure compliance to the schedule.	Medium	Following the establishment of the IGWG this will go on the agenda for this group to monitor this in conjunction with CLT & Service Managers as an ongoing issue.	Data Protection and Information Security Officer	June 2020
6. Existing contracts have not been updated by the Legal team with GDPR contractual addendums.	By not ensuring to complete the revised GDPR addendum from all contractors increases the risk of the Council not complying with the principle of Privacy by Design.	With an oversight of the IG Board, the Legal Services should ensure all existing contracts are updated and agreed with the necessary GDPR addendums.	Medium	Legal Services to finalise contract changes.	Head of Strategic Support	June 2020

Procurement 2019/20

1. Background

The Procurement team provide the council with a central procurement unit, a corporate resource which leads on letting corporate contracts and supporting projects, whilst allowing departmental purchasing officers to procure within the corporate procedures. To support procurement activity there is a Procurement Strategy and templates/guidance documents set out in a Procurement Toolkit which is available on the Charnwood Borough Council website. This provides guidance documents including for example, template Invitation to Tender (ITT) documents and tender evaluation forms.

To support procurement activity an Annual Procurement Plan is sent to the council Cabinet for approval followed by any amendments each quarter during the year. All contract information is held on a contract register which supports the timely identification and undertaking of procurement activity. There are two members of staff in the procurement team (Procurement Manager and Senior Procurement Officer) who support the council activity.

2. Executive Summary

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.

Overall, we conclude that the control framework in place for the management of the procurement process and compliance monitoring is adequately designed and operationally effective. Management should address the areas of risk identified from this review to further enhance the controls in place and ensure a robust approach is maintained.

Corporate Significance

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

- General risk of financial loss greater than £100,000
- Service failures would have significant impact on customers
- Risk of serious reputational damage (national press/TV)

2.2 Key Findings

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

- The Procurement Toolkit, which has been created and maintained by the procurement team, is well designed and clearly guides contract officers through the requirements, there is evidence of it being utilised effectively in practice and of other local councils using it to guide their own policies.
- There is a strong framework in place to prevent conflicts of interest or bias in the supplier evaluation process, including a robust scoring system, uniform return labels to prevent identification and a restriction on prior evidence being used to guide the procurement decision. Our detailed testing showed evidence of these controls being adhered to in all cases.
- The contracts register is effectively maintained and in-built automatic reminders facilitate contract officers complying with timescales for extensions and retendering.
- The Social Value Act requirements that are applicable to higher value procurement have been extended to cover all contract tenders.
- An expenditure report is run regularly which allows analysis and monitoring of procurement. This is effectively utilised to monitor risks of non-compliance and also allows monitoring of the proportion of expenditure incurred with local suppliers and small-to-medium enterprises (SMEs). As at 30th November 2019, 26% of expenditure was with SMEs and 37% was with suppliers located within 10 miles of Charnwood.

- Recent developments within the procurement process include introducing modern slavery prevention and the introduction of a scrutiny commission meeting requirement for prospective suppliers.
- All contract officers sampled were given the opportunity to provide additional feedback on their experiences with the procurement team, 33% (5 individuals) responded positively, with no negative feedback received. Feedback received was particularly positive about the usefulness of the toolkit and guidance available, the thorough and robust processes in place and the proactive and helpful guidance provided by the procurement team.

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:

- The procurement process for expenditure below £5,000 whilst clear could be clearer to clarify differences between the Procurement Toolkit and Contract Procedure Rules.
- Further opportunities to enhance best practice have been identified, in relation to facilitating record keeping and sharing of documents.

3. Action Plan

Observation	Risk	Recommendation	Priority	Response/Agreed Action	Officer Responsible	Action Date
1. The procurement process for expenditure below £5,000 whilst clear could be clearer to clarify differences between the Procurement Toolkit and Contract Procedure Rules	The required process is not adhered to by some departments whilst others are completing time consuming processes unnecessarily	1. The 'One Charnwood' newsletter is used to clarify expectations with procurement that best practice is to obtain three quotes for spend between £0 and £5000	Low	Agreed. We will send communications via the One Charnwood newsletter.	Procurement Manager	March 2020

2. Further opportunities to enhance best practice have been identified, in relation to facilitating record keeping and sharing of documents.	Methods of enhancing the procurement process may be missed, leading to more complex or time consuming processes.	3. Best practice methods identified by those frequently involved in the procurement process, such as the use of the electronic tendering portal and SharePoint, should be shared and encouraged with wider users.	Low	This recommendation was made by the Procurement Manager. Until the roll out of 365 is complete to all areas the use of SharePoint is not recommended as there are severe conflicts between the various operating systems being used within the Authority. Public Contract Regulations (PCR 2015) do not call for electronic tendering process for contracts below OJEU threshold of £189K. We will keep track of the roll-out and check in with IT to review roll-out progress later in 2020	Procurement Manager	August 2020

CCTV 2018/19

1. Background

Closed Circuit Television System (CCTV) legislation was introduced in the UK in 2012, followed by a Code of Conduct in 2013. There are three pieces of legislation for CCTV; The Protection of Freedoms Act 2012, The Surveillance Camera Code of Practice 2013 (SCCOP) and CCTV recordings are covered by the General Data Protection Regulations (GDPR) and covert surveillance by the Regulation of Investigatory Powers Act 2000. In April 2015 Charnwood Borough Council introduced a CCTV Code of Practice.

The Councils CCTV system was introduced in 1996 and comprises of 285 cameras installed at strategic locations in the Borough. The system is monitored in a Control Room situated at the Council Offices. The Control Room currently monitor 172 Council cameras; 52 Parish Council cameras and 62 cameras owned by Business Owners and Contractors. The system is an important facility which contributes to public safety and security, protecting both people and property with the Borough.

The CCTV service falls under the responsibility of Community Safety in the Neighbourhood Services Directorate. The CCTV Monitoring Services are also responsible for a number of subordinate functions to ensure business continuity, which includes the handling of telephone calls to the Council outside of business hours; the monitoring of Street Wardens/Car Parks and the ICS server room temperature alarm and being the forward control point for emergencies requiring activation of Major Incident Pans.

2. Executive Summary

2.1 Overview

ASSURANCE RATING – SUBSTANTIAL ASSURANCE	CORPORATE SIGNIFICANCE – MEDIUM

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.

Based on the testing undertaken during this review it was found that in general the processes/practices in place, in respect of operation of the service, comply with legislation and codes of practice. However, a review of a privacy impact assessment, the completion of a system risk assessment and a review of the code of practice would strengthen those practices and ensure compliance.

Two key operational risks were identified that could lead to deficiencies in service provision; the loss of the monitoring facility and inappropriate staffing provision. Testing found that appropriate mitigating actions were in place in the event of a critical system failure and the completion of a system risk assessment would embed this further.

In respect of officers, all officers have undertaken appropriate training and the use of casual officers and rotas ensures appropriate staffing provision for the CCTV service.

Corporate Significance

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

- Service failures would have moderate impact on customers
- Risk of moderate reputational damage (local press)
- Moderate health and safety risk (e.g. broken limbs)

2.2 Key Findings

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

- There is a Charnwood CCTV Code of Practice which clearly states the primary objectives of the system and has been benchmarked against the Surveillance Camera Commissioner's Code of Practice.
- As required under GDPR, the Council are registered with the ICO, declaring that the organisation is processing personal identifiable information, as CCTV footage that may enable people to be identified.
- There is a Performance Management Framework in place that ensures the service is focused on providing quantitative and quality data.
- All relevant legislation and codes are made available to CCTV Advisors, in electronic and hardcopy format.
- Access to the CCTV Control Room and Server Room is restricted, monitored and recorded.
- The CCTV system uses an Atomic Clock and all officers have a Security Industry Authority Licence which contributes to ensuring image quality and integrity.
- When downloading footage/images each CCTV Advisor has their own individual logon.
- Images/Footage are retained in accordance with Council's Data Retention and Destruction Policy, which adopts the Local Government Association Retention Schedule.
- In all aspects the Council are transparent in the use of surveillance cameras through the publication of a Code of Practice, appropriate signage, a published point of contact and map of town centre cameras and the issuing of letters to individuals and business who may be affected by camera locations.
- The effect on individuals and their privacy is reviewed by the Joint Action Group when installing cameras.
- The justification of camera locations is reviewed by the CCTV Strategic Group which includes Loughborough BID, Street Management, Housing and Community Safety.
- There is a CCTV System Maintenance Contract in place to ensure continuity of the service.
- There are written standards in place for the use of Body Worn Video.
- CCTV has the support of relevant Stakeholders and this documented in the Code of Practice.

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:

- The Charnwood CCTV System Code of Practice was last reviewed in April 2015 and although published does not contain the appendices (including the terms of reference that documents the roles and responsibilities of the Strategic Group and Operational Group).
- A CCTV System Risk Assessment has not been undertaken to demonstrate the security measures in place to safeguard against unauthorised access and use, consequently ensuring the integrity of images.
- A Privacy Impact Assessment is in place but this has not been reviewed since 2015.

- There are no written procedure on how employees should respond to subject access requests from individuals in respect of access to CCTV recordings.

3. Action Plan

Observation	Risk	Recommendation	Priority	Response/Agreed Action	Officer Responsible	Action Date
1. The Code of practice was last reviewed in April 2015 and although published does not contain the appendices (including the terms of reference that documents the roles and responsibilities of the Strategic Group and Operational Group).	The code may not contain up to date practices and legislation.	1. The Code of Practice is reviewed to ensure it is complete and reflects up to date practice.	Low	Code of Practice to be reviewed and amended accordingly.	CCTV Team Leader	April 2020
2. A CCTV System Risk Assessment has not been undertaken to	Potential threats to system/data security may not be identified resulting in	2. A risk assessment on the CCTV system is undertaken.	Low	A full risk assessment will be undertaken to identify any threats in terms of unauthorised access/corruption of	CCTV Team Leader	April 2020

demonstrate the security measures in place to safeguard against unauthorised access and use, consequently ensuring the integrity of images.	mitigating actions not being put in place to ensure the integrity of images and to safeguard against unauthorised access and use.			data.		
3. A Privacy Impact Assessment is in place but this has not been reviewed since 2015.	The assessment may not take into consideration any new requirement following the introduction of the General Data Protection Regulations.	3. The Privacy Impact Assessment is reviewed and published to ensure it is in line with GDPR and Principle 2 of the Surveillance Code of Practice.	Low	A review of the Privacy Impact Assessment will be undertaken and compliance to GDPR assessed.	CCTV Team Leader	April 2020
4. There is no written procedure on how employees should respond to subject access requests from individuals in respect of access to CCTV recordings.	Potential for non-compliance to General Data Protection Regulations.	4. A written subject access requests procedure guide is put in place so that, in the absence of the CCTV Team Leader, CCTV Advisors know how to respond to requests from individuals for access to CCTV recordings.	Low	A review of the Operators manual will be undertaken and an insertion made in respect of how staff process subject access requests.	CCTV Team Leader	April 2020

Appendix C

Follow Ups: Recommendations Not Implemented by the Agreed Date as at 31st December 2019

Audit	Observation	Recommendation	Priority	Agreed Action	Agreed Date	Responsible Officer	Comments
Corporate Credit Cards 2018/19	There is currently no specific corporate credit card policy/guidance in place and no expectation for officers to sign a user acceptance policy.	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.	September 2019 Revised Date October 2019, January 2020	Interim Head of Finance and Property Services	The current Head of Finance and Property Services inherited these recommendations from her predecessor. A meeting was held with the Head of Finance and Property and it was agreed that that the recommendations in respect of corporate credit cards will all be adsorbed by the creation of a new policy and guidance document. This has now been implemented.

Corporate Credit Cards 2018/19	The Head of Finance and Property receives no documentation to support the online application before authorising.	The Head of Finance and Property receives a copy of the application e-form to ensure that the authorised limits have been correctly input on the online HSBC application form before authorising.	Medium	Agreed as per recommendation	September 2019 Revised Date October 2019, January 2020	Head of Finance and Property Services	It was agreed that there will be a declaration on the policy which will be signed by the officer and Head of Service. This policy will be presented to Accountancy Control (for input) and the Head of Finance and Property authorisation with the bank. This process will provide a sufficient segregation of duties and the Head of Finance and Property Services will have the appropriate documentation before authorising the application. This has now been implemented.

Corporate Credit Cards 2018/19	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.	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.	September 2019 Revised date October 2019, January 2020	Interim Head of Finance and Property Services	The new policy will reflect that a VAT receipt must be obtained for purchases. This has now been implemented.

IT – Cyber Security 2019/20	There is no protocol in place for regular review and update of the IT risk register	IT Steering Group should be assigned responsibility for ensuring that regular (at least annually) risk assessments are conducted going forwards	Low	IT Risk register to be included as an item at the next IT Steering Group meeting	September 2019 Revised December 2019, March 2020	ICT Service Delivery Manager	The risk register was on the agenda for the IT Steering Group meeting in December, however the new Chief Executive attended the Steering Group meeting and there was a lot to go through so the risk register item was deferred to the next group meeting on the 19th March 2020.

AUDIT COMMITTEE – 11 MARCH 2020

Head of Strategic Support

Part A

ITEM 12 INTERNAL AUDIT PLAN 2020/21

Purpose of Report

To present the proposed Internal Audit plan for 2020/21, including the proposed IT Audit Plan for the period 2020/21.

Recommendations

The Committee is recommended to approve the proposed Internal Audit Plan as set out in the Appendix.

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 2020 – March 2021. 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 audit plan	Unlikely (2)	Serious (3)	Moderate (6)	Audit plans are derived using a risk based methodology and

Risk Identified	Likelihood	Impact	Overall Risk	Risk Management Actions Planned
could lead to ineffective targeting of internal audit resources.				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 2020/21

2.1 The proposed annual Audit Plan for 2020/21 is attached as an Appendix.

2.2 The Audit Plan has been prepared following a risk based assessment of the 'audit universe' and consultation with the Senior Leadership Team and Corporate Leadership Team, to identify the Council's key risks.

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

2.5 The resources for technical Information Technology (IT) audits have been procured. Further details are recorded within the proposed plan.

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 14 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 a number audits not finished to final report stage from the 2019/20 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 has been reviewed and approved for presentation to the Audit Committee by the Senior Leadership Team.

3. Resources

3.1 This will be the first year of the new shared Internal Audit service with Blaby and North West Leicestershire District Councils.

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.

Appendix

Proposed Internal Audit Plan 2020/21.

APPENDIX

INTERNAL AUDIT SHARED SERVICE

Charnwood Borough Council

2020/21 Internal Audit Annual Plan

1. INTRODUCTION

1.1 The Public Sector Internal Audit Standards require the Chief Audit Executive to develop a risk based plan to determine the priorities of the internal audit activity, consistent with the organisation's goals. This document sets out the background and the approach to producing the annual plan, with the 2020/21 annual plan attached at Appendix A.

2. BACKGROUND

2.1. The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit play a vital role in advising the Council that these arrangements are in place and operating effectively. The Council's response to Internal Audit activity should lead to strengthening of the control environment and therefore contribute to the achievement of the organisation's objectives.

2.2. Internal Audit provide a combination of assurance and consulting/advisory activities. Assurance work involves assessing how well the systems are designed and working, with consulting or advisory activities available to help to improve those systems and processes where necessary. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

2.3. The Internal Audit Charter sets out the purpose, authority and responsibilities of Internal Audit. The Charter:

- establishes Internal Audit's position within the organisation;
- authorises access to records, personnel and physical properties relevant to the performance of engagements; and
- defines the scope of Internal Audit activities.

2.4 The Three Lines of Defence Model (below) is a valuable framework that explains Internal Audit's role in providing assurance that the management arrangements over governance, risk and internal control are adequate and effective.

Source Chartered Institute of Internal Auditors

3. INTERNAL AUDIT PLAN

3.1. Overall Strategy

3.1.1 The key aim of the service is to provide an independent, objective assurance and advisory function which is designed to add value and improve the Council's operations. This supports Charnwood Borough Council in the achievement of its priorities and helps services to provide good value for money, as it brings a systematic disciplined approach to evaluating and improving the effectiveness of risk management and control and governance processes.

3.1.2 The Audit Manager has produced a risk-based annual audit plan. This is informed by a risk assessment which is based on a combination of:

- consulting with key stakeholders including the existing audit team and senior management;
- reviewing the strategic risk register and committee minutes;
- reviewing reports from external agencies (for example external audit) and legislative updates;
- factors such as changes in staffing, systems and processes; and
- the Audit Manager's professional judgement.

3.1.3 This approach enables the finite resources of the team to be focussed on areas where it can add value and conforms to the Public Sector Internal Audit Standards.

3.1.4 The outcomes from each audit engagement undertaken as part of the annual audit plan underpin the Audit Manager's annual opinion on the Council's internal control environment. This opinion feeds in to the Council's Annual Governance Statement.

3.2. Resources Available

3.2.1 The Audit Team who will deliver the 2020/21 annual audit plan at Charnwood Borough Council consists of the Audit Manager (0.32 FTE), Senior Auditor (0.66) and an Internal Auditor (0.8 FTE). Table 1 shows a calculation of the available audit days for 2020/21.

Table 1: Resources Available

Available Days	**343**
Team and Contract Management / Annual Opinion/ Annual Plan/Audit Committees/Progress Reports/External Audit	25
Corporate Meetings/General Admin/ Minutes Review/Regional Audit Groups	30
Available Audit Days	**288**

3.3. Internal Audit Annual Plan 2019/20

3.3.1 The proposed 2020/21 Annual Audit Plan is shown in Table 2 below and the detailed plan is shown in Appendix A. The Plan will be subject to ongoing review to ensure that it remains aligned with the Council's objectives and the risks identified by management in the risk registers. Any changes will be reported to the Senior Leadership Team and the Audit Committee.

Table 2: 2020/21 Annual Audit Plan

Risk Based Audits 2020/21	192
Completion of 2019/20 Outstanding Audits	25
Follow up reviews	15
Advisory – Adhoc	12
National Fraud Initiative (IA Role to be confirmed)	15
Public Sector Internal Audit Standards Inspection	15
Contingency	14
Total Audit Days	**288**

3.3.2 Charnwood BC currently have a contract with BDO to deliver 40 IT audit days per year from 2019/20 – 2021/22. The specific IT audits to be delivered during 2020/21 have been agreed as:

- IT Change Controls - 10 days Q1
- IT Application Controls – 12 days Q2
- IT 3rd Party Supplier Management – 10 days Q3

3.3.3 The timings shown within the Internal Audit Annual Plan are estimates based on time taken on previous similar audits and a high level consideration of the scope and existing arrangements. As part of the set up process for each audit engagement the scope of the audit will be agreed in detail and a more accurate budget for audit days will be set. A contingency has been included in the plan to allow for variances in planned audits days against actual and for ad-hoc or fraud investigations that may arise during the year. Due to the limited resources available, only **14** days have been included at this time. The quarterly progress reports to Audit Committee will include a comparison of planned to actual days for each audit undertaken.

3.4 Limitations

3.4.1 The matters raised in the audit reports will only be those which come to our attention during internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or all the improvements that may be required. Whilst every care will be taken to ensure that the information contained in audit reports is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained therein. Our work does not provide absolute assurance that material errors, losses or fraud do not exist.

APPENDIX A

2020/21 INTERNAL AUDIT ANNUAL PLAN

AUDIT AREA	TYPE	TIMING	COUNCIL PRIORITY AREA	CORPORATE SIGNIFICANCE	PLANNED AUDIT DAYS
STRATEGIC AND PRIVATE SECTOR HOUSING					
Disabled Facilities Grants	Certification	Q2	Theme 2	Medium	3
Acquisitions Policy	Audit	Q2	Theme 2	High	8
				SUBTOTAL	11
LANDLORD SERVICES					
Fire Safety and Management	Audit	Q3	Theme 2	High	8
Gas Servicing Contract Monitoring	Audit	Q3	Theme 2	High	8
Asbestos Management	Audit	Q3	Theme 2	High	8
				SUBTOTAL	24
PLANNING AND REGENERATION					
Development Control	Audit	Q2	Themes 2,4	High	10
Tree Preservation Orders	Audit	Q2	Theme 1	Medium	6
Building Control	TBC	Q2/3	Themes 1,2	Medium	8
				SUBTOTAL	24
CLEANSING AND OPEN SPACES					
Open Spaces Contract	Audit	Q3	Theme 1,2	High	10
				SUBTOTAL	10
LEISURE AND CULTURE					
Town Halls	Audit	Q2	Theme 3	Medium	10
Markets booking facility	Advisory	Q1	Theme 3	Low	1
Museum exhibition sales	Advisory	As required	Theme 3	Low	1
				SUBTOTAL	12
FINANCE AND PROPERTY					
Key Financial Systems	Audit	Q3/4	Theme 4	High	52
Right to Buy	Audit	Q1	Themes 2,4	High	10

Commercial Property Project	Advisory	As required	Theme 4	High	5
Commercial Property Project	Audit	Q4	Theme 4	High	10
				SUBTOTAL	77
STRATEGIC SUPPORT					
Corporate Health and Safety Arrangements	Audit	Q2/3	Theme 4	High	12
				SUBTOTAL	12
CROSS CUTTING					
Capital Programmes	Audit	Q3	All	High	12
Affordable Housing	Audit	Q2	Theme 2	High	10
				SUBTOTAL	22
				TOTAL	192

Key

Theme 1 - Caring for the Environment
Theme 2 - Healthy Communities
Theme 3 - A Thriving Economy
Theme 4 - Your Council

AUDIT COMMITTEE – 11TH MARCH 2020

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 2020/21.

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 2020/21 financial year was approved by Cabinet on the 13th February 2020. 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
Officers to contact:	Adrian Ward (01509) 634573 adrian.ward@charnwood.gov.uk Helen Gretton (01509) 634556 helen.gretton@charnwood.gov.uk

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.

Development of the Strategic Risk Register

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

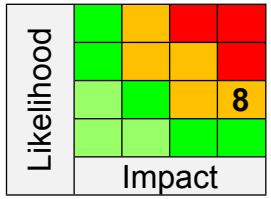
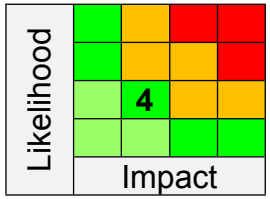
3. In reading the Strategic Risk Register attached as an Appendix, it is important to understand that the 'Overall Score' shown in the first risk matrix is the risk that the Council would bear if ***no*** actions were taken to mitigate the risk. In the vast majority of cases the Council is able to operate 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.

4. The register will continue to be monitored and reviewed by the Senior and Corporate Leadership Teams at the quarterly Risk Management Group meetings, and will be updated as required.

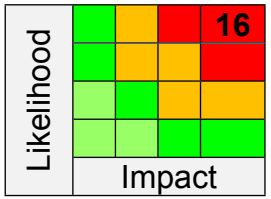
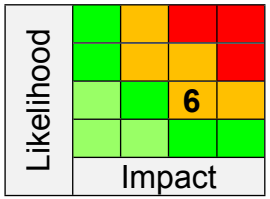
Appendix

Strategic Risk Register 2020/21

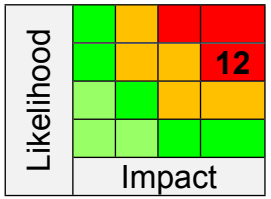
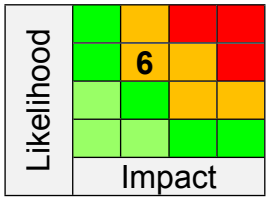
APPENDIX - Strategic Risk Register 2020/21

Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
SR1 Inadequate business continuity and recovery arrangements, resulting in major internal and/or external disruption to services in the event of an incident.	Strategic	• Inability to deliver key/critical services e.g.benefits, refuse collection, homelessness applications, emergency repairs. • Reduction in access channels available to residents / customers i.e. contact centre, customer services, telephony			MAINTAIN AS CURRENT
Current Treatments and Controls	• Business Continuity Planning • IT Disaster Recovery Plan • Website hosted externally • Off-site data back-up arrangements • Stand-by generator for ICS building • Cloud based telephony infrastructure • Contingency planning for failure of major contractor				
Risk Owner	Strategic Director of Corporate Services				
Planned Future Actions and Responsible Officer(s).	Description: Not applicable		Responsible Officer: N/A	Target Date: N/A	

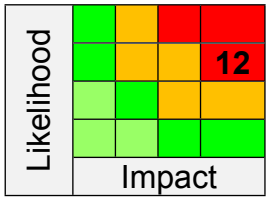
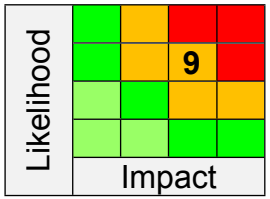
APPENDIX - Strategic Risk Register 2020/21

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 • Major reputational damage and loss of public confidence • Potentially significant fines			MAINTAIN AS CURRENT
Current Treatments and Controls	• Information sharing agreements in place with key agencies and authorities • Annual IT health checks including penetration testing • Data Protection Officer in post • Data protection training and awareness for staff and councillors • IT security policies in place • Protective marking of emails • Policies are reviewed on a regular basis				
Risk Owner	Strategic Director of Corporate Services				
Planned Future Actions and Responsible Officer(s).	Description: Not Applicable	Responsible Officer: N/A		Target Date: N/A	

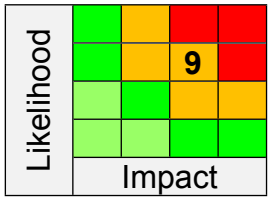
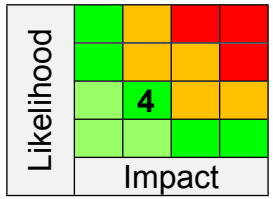
APPENDIX - Strategic Risk Register 2020/21

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) • Adverse effect on the local economy • Major reputational damage and loss of public confidence • 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) • Appropriate emergency and incident planning in place • Regular Testing and exercising of emergency plans • Training and awareness for relevant staff • 24/7 call-out arrangements for senior managers (SMT / CMT) • Participation in county-wide Events Safety Group (SAG) • Reviews periodically undertaken within current Treatments and Controls				
Risk Owner	Chief Executive				
Planned Future Actions and Responsible Officer(s).	Description: Participation in LRF's 'no-deal' Brexit planning processes, including appointment of a 'Brexit Lead Officer'		Responsible Officer: Head of Strategic Support	Target Date: Ongoing	

APPENDIX - Strategic Risk Register 2020/21

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 • Inability to meet statutory duties • Ceasing or reducing some services			MAINTAIN AS CURRENT
Current Treatments and Controls	• Annual production and monitoring of Medium Term Financial Strategy (MTFS) • Treasury Management Strategy • Budget and revenue monitoring processes • Business continuity planning • Production and monitoring of efficiency plan • Maintenance of reserves at specified required levels • Monitor, consider and respond to government proposals affecting budgets and/or income • Consider commercialisation opportuntiies				
Risk Owner	Strategic Director of Corporate Services				
Planned Future Actions and Responsible Officer(s).	Description: Not Applicable		Responsible Officer: N/A	Target Date: N/A	

APPENDIX - Strategic Risk Register 2020/21

Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
SR5 Ineffective strategic communication arrangements	Strategic	• Reputational damage • Adverse media coverage • Damage to relationships with partners • Damage to staff morale			MAINTAIN AS CURRENT
Current Treatments and Controls	• Adequately staffed and experienced corporate communications team • Corporate Communications Plan in place • Regular monitoring of all media sources • Continue to expand on social media use and reach • 'Horizon scanning' for potential communication issues at each Corporate Management Team meeting				
Risk Owner	Chief Executive				
Planned Future Actions and Responsible Officer(s).	Description: Not Applicable	Responsible Officer: N/A	Target Date: N/A		

AUDIT COMMITTEE – 11TH MARCH 2020

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 2019 to 31st January 2020.

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

There are no risks associated with this decision.

Background Papers:	Home Office Code of Practice – Covert Surveillance &Property Interference (2014)
Officer to contact:	Adrian Ward (01509 634573) adrian.ward@charnwood.gov.uk

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 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 13th February 2020 Cabinet agreed 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. This Committee will therefore continue to receive a regular report on the Council's use of RIPA powers.

5. During the period from 1st November 2019 to the 31st January 2020 the Council made no use of RIPA powers.

6. 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 – 11TH MARCH 2020

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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ISSUE	MEETING
Internal Audit Business	Ongoing
Internal Audit Plan – Progress	9th June 2020 Quarterly
Risk Management (Risk Register)	9th June 2020 Quarterly - detailed report every six months, exception report quarters in-between.
Council's Use of Regulation of Investigatory Powers Act (RIPA)	9th June 2020 Quarterly

2019/20 Annual Internal Audit Report	9th June 2020 Annually
2019/20 Review of the effectiveness of Internal Audit (Feedback from Panel)	9th June 2020 Annually
Internal Audit Charter	9th June 2020 Annually (for approval)
2019/20 Members' Allowances Claimed	9th June 2020 Annually
Whistle Blowing and Anti-fraud, Corruption and Bribery	9th June 2020 Annually
Environmental Audits – Report on Outcomes	9th June 2020 Annually *Note: Six month exception report where identified actions are not implemented by the target date.*
2019/20 Treasury Management Outturn	9th June 2020 Annually
2019/20 Statement of Accounts	28th July 2020 (Accounts Meeting) Annually
2019/20 Annual Governance Statement and Review of the Code of Corporate Governance	28th July 2020 (Accounts Meeting) Annually
Environmental Audits Outcomes – Progress update	22nd September 2020
Annual IT Health Check (Code of Connection)	22nd September 2020

Confidential Report	Annually
Treasury Management Mid-Year Review	22nd September 2020 Annually
2020/21 Treasury Management Statement, Annual Investment Strategy and MRP Strategy	February 2021 Annually
2021/22 Internal Audit Plan	February 2021 Annually
Future of Local Public Audit	Report on Government proposals considered 5th July 2011. Further report once final regulations/guidelines are known. Note: Appointing Your External Auditor briefing note considered June 2016.
Policy for Engagement of External Auditors for non-audit work	Considered March 2013. Review policy - date to be agreed
External Audit Business	Ongoing
External Audit Progress Report and Technical Update	6th June 2020 Quarterly
2019/20 Annual Governance Report	28th July 2020 (Accounts Meeting) Annually
2020/21 Annual Audit Letter	February 2021 Annually
2021/22 External Audit Plan	February 2021 Annually