



Telford & Wrekin
C O U N C I L

Addenbrooke House Ironmasters Way Telford TF3 4NT

AUDIT COMMITTEE

Date **Tuesday 26th January 2016** Time **6.00pm**
Venue **Meeting Room G3, Addenbrooke House, Ironmasters Way, Telford TF3 4NT**

Enquiries Regarding this Agenda:

Democratic Services	Jayne Clarke	01952 383205
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Committee Membership: R Sloan (**Chairman**) (**Lab**)
C F Smith (**Vice Chairman**) (**Lab**)
I T W Fletcher (Con)
K R Guy (Lab)
A Lawrence (Con)
S A W Reynolds (Lab)
W L Tomlinson (Lib Dem/Ind)
D Wright (Con)

AGENDA

1. **Apologies for Absence**
2. **Declarations of Interest**
3. **Minutes** **Appendix A**
To confirm the minutes of the Audit Committee held on 15th September 2015 Page No:
4. **KPMG Annual Audit Letter 2014/15** **Appendix B**
To receive the report of KPMG Page No:
5. **Grants Report 2014/15** **Appendix C**
To receive the report of KPMG Page No:

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6. **Adult Social Care Systems Update**
To receive a joint verbal report from Director of Children's and Adult Services, Assistant Director: Adult Social Services and Service Delivery Manager: Service Improvement and Efficiency.
7. **Significant Projects Risk Register and Assurance on Risk Management:**
 - a) **Better Care Fund, Care Act and Social Care Change Board**
To receive a joint verbal report of Director of Children's and Adult Services, Assistant Director: Adult Social Services and Service Delivery Manager: Service Improvement and Efficiency;
 - b) **Single Status**
To receive a verbal report of the Assistant Director: Legal, Procurement & Commissioning;
 - c) **Housing Investment Programme**
To receive a joint verbal report of The Managing Director, Assistant Director: Business, Development & Employment and Housing Investment Programme Manager
8. **Draft Treasury Management Strategy 2016/17 and update 15/16** **Appendix D**
To receive the report of the Assistant Director: Finance & Human Resources **Page No:**
9. **2015/16 Internal Audit Quarters 2 and 3 Update Report; Update of the Internal Audit Charter for 2016/17; External Assessment in respect to the Public Sector Internal Audit Standards** **Appendix E**
To receive the report of the Service Delivery Manager: Internal Audit, Information Governance & Insurance Services **Page No:**
10. **Update on the Annual Governance Statement 2014/15 Action Plan** **Appendix F**
To receive the report of the Service Delivery Manager: Internal Audit, Information Governance & Insurance Services **Page No:**
11. **Review of the Effectiveness of the Audit Committee 2015/16** **Appendix G**
To receive the report of the Service Delivery Manager: Internal Audit, Information Governance & Insurance Services **Page No:**

AUDIT COMMITTEE

Terms of Reference

The Committee has the responsibility on behalf of the Council for the overseeing of the Council's audit, governance (including risk management) and financial processes.

Delegated matters (i.e. Matters which can be decided (resolved))

Internal Audit

1. The approval (but not direction) of, and monitoring of progress against, the internal audit strategy and plan.
2. Review summary internal audit reports and the main issues arising and seek assurance that action has been taken where necessary.
3. To be able to call senior officers and appropriate members to account for relevant issues within the remit of the Committee – governance (including information governance), internal audit, risk management, statement of accounts and external audit.
4. The Committee will not receive detailed information on investigations relating to individuals. The general governance principles and control issues may be discussed, in confidential session if applicable, at an appropriate time, to protect the identity of individuals and so as not to prejudice any action being taken by the Council.

External Audit

5. Review and agree the External Auditors annual plan, including the annual audit fee and receive regular update reports on progress.
6. To consider the reports of external auditor.
7. Meet privately with the external auditor as required.
8. Ensure that there are effective relationships between external and internal audit that the value of the combined internal and external audit process is maximised.

Governance

9. Consider the effectiveness of the Council's governance processes and their compliance with legislation and best practice including:
 - a) the Council's Code of Corporate Governance;
 - b) the Council's information security framework;
 - c) receipt of the Caldicott Guardian's Annual Report;
 - d) oversight of the Commercial Board
 - e) the management of opportunities and risks; and
 - f) other corporate governance arrangements.
10. Be responsible for the review and approval of the authority's Annual Governance Statement ensuring that it properly reflects the governance, control and risk environment and any actions required to improve it. Following approval, it should accompany the Accounts.

Treasury Management

11. To review and monitor the Council's Treasury Management arrangements including Treasury policies, procedures and the management of the associated risks and make recommendations to the Cabinet as appropriate.

Statement of Accounts

12. Review and approve the Statement of Accounts, external auditor's opinion and reports on them to members and monitor management action in response to the issues raised by external audit.

Fraud & Corruption

13. To approve the Anti-Fraud and Corruption Policy and to recommend its adoption by the Council, and to monitor its operation. The policy will be reviewed at least once every two years.
14. To approve the Speak Up Policy ('*whistle blowing*') and to recommend its adoption by the Council, and to monitor its operation. This policy will be reviewed at least once every two years.

Complaints

Recognising that Complaints/Compliments are a Cabinet function, the Committee should:-

15. Review the Annual Complaints Report and seek assurances that the Council is improving in response to complaints raised.

General

16. The meetings will follow the principles of scrutiny, i.e. no party whip will be applied and a constructive, evidence based approach will be used.
17. To ensure that adequate training is received by the members of the committee on the areas covered by these terms of reference.
18. To ensure that any sensitive or confidential information obtained as a result of membership of the Committee is treated as confidential.
19. Annually review their effectiveness and their terms of reference.

The Audit Committee comprises 7 Councillors and has the option to co-opt one or more non voting independent members. A copy of the Agenda and papers are available from the Civic Offices, electronically upon request or by visiting the Borough's Web Site at www.telford.gov.uk

Emergency Evacuation Procedure

On hearing the fire alarm, please evacuate the building as quickly as possible by the nearest Fire Exit. The Democratic Services Officer will direct you to the assembly point on the car park.

AUDIT COMMITTEE

Minutes of a meeting of the Audit Committee held on Tuesday, 15 September 2015 at 6.00pm in Meeting Room G3, Addenbrooke House, Ironmasters Way, Telford, Shropshire

PRESENT: Councillors R Sloan (Chair), C F Smith (Vice Chair), I T W Fletcher, and S A W Reynolds.

IN ATTENDANCE: Mr I Pennington (Director at KPMG), Mr A Bunting (Assistant Manager at KPMG) and Cllr A England (for Agenda items 7 and 8)

OFFICERS: P Taylor (Director of Care, Health & Wellbeing) J Eatough (Assistant Director: Law, Democracy & People Services), A Astley (Assistant Director: Neighbourhood & Customer Services), R Smith (Assistant Director: Adult Social Services) C Jones (Assistant Director: Family, Cohesion & Commissioning) P Harris (Finance Manager - Corporate Finance & Customer Services), J Marriott (Audit & Information Governance Manager), B Morris (Finance Team Leader), R Montgomery (Information Governance Team Leader), J Power (Delivery and Planning Manager) and J Clarke (Democratic Services Support Officer).

AUC-14 APOLOGIES FOR ABSENCE

Councillors W L Tomlinson and D G Wright

AUC-15 DECLARATIONS OF INTEREST

None.

AUC-16 MINUTES

RESOLVED – that the minutes of the meeting of the Audit Committee held on 30 June 2015 be confirmed and signed by the Chair.

AUC-17 REPORT OF THOSE CHARGED WITH GOVERNANCE

Mr I Pennington and Mr A Bunting, KPMG, gave a joint overview of the headlines from within the report of those Charged with Governance.

This report linked with the 2014/15 Statement of Accounts which was also before Audit Committee at Agenda item 5 of the meeting.

KPMG informed members that this had been a good audit and it was anticipated an unqualified audit opinion on the Authority's financial statements would be issued by 30 September 2015.

During the audit of the financial statements no material adjustments were identified, although there were a number of presentational adjustments required and these have been adjusted accordingly. There was no impact on the General Fund.

From the External Audit Plan 2014/15 KPMG identified the following key financial audit risks:

- Management Override of Controls
 - No instances were identified during KPMG's work
- Fraudulent Revenue Recognition
 - No specific work was required in this area
- Accounting for Local Authority Maintained Schools
 - KPMG had worked with officers during the year regarding risk and detailed findings. No matters of any significance arose as a result of the audit work
- Group Accounting
 - This risk did not materialise during the year as the subsidiary company had not yet been established at the end of the financial year

There was a recommendation at page 15 of the report regarding manual work-arounds for Fixed Asset Register. This needed some modernisation and it was recommended that the Authority should proceed with the planned introduction of the Agresso Asset Module. This did not impact on the accounts and no assets were unvalued.

A letter of representation needed to be signed and submitted by the Local Authority before KPMG could issue their opinion.

At the time of issuing the report KPMG's audit of the financial statements was substantially complete and KPMG confirmed that they had complied with the requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

The Value for Money (VFM) opinion was complicated and testing had been undertaken on areas, processes and controls of:

- Procurement
- Budget Monitoring

Two specific risks had been identified in the External Audit Plan 2014/15:

- Savings Plans
 - Savings plans were in place across the organisation which included procurement and staff. Under/over spend was being regularly monitored. Budget underspends helped offset the overspends on Adult and Children Services
- Commercial Projects
 - This related to ensuring the Authority made their decisions properly

In conclusion, the Authority had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources and as a result it was anticipated issuing an unqualified VFM conclusion by 30 September 2015.

AUC-18 2014/15 STATEMENT OF ACCOUNTS

The Finance Manager gave the Committee an overview of the Audited Accounts which were before them for approval.

The draft accounts had been placed on the website for public inspection on 30 June 2015.

Members of the Audit Committee had attended at a training session on the Accounts prior to the Committee Meeting.

A six page summary of the accounts would be published on the website once the accounts had been signed off by KPMG.

A discussion took place including:

- Draft accounts available on website for public inspection
- 6 page summary of accounts to be put on website
- Unqualified opinion with no financial adjustments
- Outturn report and the underspend

The Chair congratulated all of the officers who had taken part in the audit and the preparation and strength of procedures that helped KPMG sign off with an unqualified opinion

RESOLVED that:

- a) **the 2014/15 Statement of Accounts be approved;**
- b) **delegated authority to the Assistant Director: Finance, Audit & Information Governance to make any presentational changes required to the Statement of Accounts prior to publication be granted; and**
- c) **the updated (for minor presentational changes) Annual Governance Statement be approved.**

AUC-19 CUSTOMER FEEDBACK PERFORMANCE 1ST APRIL 2014 – 31ST MARCH 2015

The Assistant Director: Neighbourhood & Customer Services presented the report on performance from 1st April 2014 until 31st March 2015.

In summary, it was asked that it was acknowledged that there had been a relatively small number of complaints registered compared to the number of services provided by the Council on a daily basis against a backdrop of having delivered £70m savings during the last 6 years.

This was an extremely positive and pleasing report in that the number of complaints received during 2014/15 had reduced by 22%. During the reporting period 787 corporate complaints had been received and following investigation 30% were partly or fully upheld as against 54% during 2013/14.

During the reporting period 558 compliments had been received which was a slight decrease of 6% from the previous year, with the highest volume of compliments being received by front-line services.

The Assistant Director was also pleased to report that 85% of Stage 1 complaints were responded to within 15 working days, which met the Council's target of 83%.

Details of the complaints could be found at 4.1 to the report which included:

- Council Tax & Benefit Service
 - 183 for year (136 & 58) with approximately 50% upheld mainly due to processing errors and delays
- Refuse & Kerbside
 - Complaints decreased from 283 during 2013/14 to 95 during reporting period from approximately 3.6m collections. Of this, 54% had elements upheld due to missed pull outs and collections, bins/boxes not being returned and receptacles being taken/not delivered and spillages. Missed collections had reduced by 20% and missed assisted collections by 22% which had been attributed to robust contract monitoring.
- Leisure Centres
 - 64 complaints had been received out of 1.2m visitors per year. Of the 64 complaints, 34% were fully upheld and these related to the level of service and facilities available, equipment failure and the temporary closure of Oakengates Leisure Centre
- Customer Contact Centre
 - 62 complaints had been received from approximately 279,000 customer contacts during the reporting period, of those 49% had elements upheld mainly due to waiting times. The Assistant Director was aware of the challenges at some points during the working day and a new phone system had been installed within the contact centre with the ability for customers to request a call back. Channel shift had also been introduced in order to minimise the calls ie Everyday Telford app. Two full time staff had been moved to the contact centre in order to improve response times. The team continued to improve taking on board lessons learnt.
- Planning
 - 36 complaints had been received 30% of which had elements upheld around the lack of consultation and responses to enquiries together with administrative processing errors.

- Libraries
 - 26 complaints had been received 40% of which had elements upheld predominately around computer performance. All of the computers had now been upgraded to an acceptable standard.

With regard to adult's and children's statutory complaints, for the reporting period 140 complaints had been received:

Adults – 64 complaints, 37.5% of which had elements upheld and 40% responded to within 32 days.

Children – 76 complaints, 35% of which had elements upheld and 52% were responded to within 20 working days.

Further work was needed to improve performance in both of these areas.

There had been a total of 254 MP Enquiries; 185 from David Wright MP and 60 from Mark Pritchard MP. A further 9 enquiries had been submitted by other MPs. All enquiries were dealt with within an acceptable timescale.

A total of 848 Member enquires and 717 Parish enquiries had been received by the Customer Quality Team and 99% had been dealt with on target.

With regard Ombudsman enquiries, 28 new enquiries had been received of which 16 had been investigated. Outcomes of these investigations were listed at 4.6.2 of the report with lessons learnt being appended at Appendix D.

Freedom of Information requests were a growing trend with some 1,126 requests being received which was an average of 94 per month and an increase of 5% from the last year. These requests were resource intensive against a backdrop of savings. The Local Authority responded to these very quickly whereas other Councils did not always respond.

A discussion took place including:

- Good improvements
- Scrutiny looking into call waiting
- Fewer requests going to Stage 2
- FOIs

Following the discussion it was:

RESOLVED – that the information within the report, particularly the decrease in complaints received and the reduction in the percentage of those complaints that have been fully or partly upheld be noted.

AUC-20 ADULT SOCIAL SERVICES UPDATE

The Director of Care, Health and Wellbeing and the Assistant Director: Adult Social Services, together with the Assistant Director: Adult Social Services; Assistant Director: Family, Cohesion & Commissioning and the Cabinet Member: Adult Social Care gave a verbal update on the current position regarding the new IT Systems and the unbilled income.

IT Systems

Although they had previously reported their confidence in having the new systems in place by September 2015 the project had been very challenging and had proved more complicated than expected, but were now 100% confident that the full upgrade could be achieved by March 2016.

It had recently been recognised that there needed to be a clear ownership of the Abacus and CareFirst systems and a responsibility for these systems to be brought up-to-date. During November 2014 ownership and responsibility had been transferred to the Service Delivery Manager: Service Improvement and Efficiency who had needed to put in place interim systems and financial controls to deal with unbilled income whilst the lengthy process of integrating the systems took place.

Discussions had taken place with ICT colleagues, the Abacus supplier and other Local Authorities who used the system and it was realised that the interfacing of the two systems was a more complex issue than first thought together with the system needing to be Care Act compliant. This would require significant changes to performance and client records needed to be updated in order to capture the SALT (Short and Long Term Care) returns.

The interface between CareFirst and Abacus was not compatible and as a result it had been recognised that the system would require a partial rebuild. The changes were of a significant number and included:

- Residential Payments Extranet
- CareFirst Client Interface with Abacus
- Deferred Payments Module (Care Act)
- Service Order/Contract Shape changes
- Direct Payments Module

Although this was an issue they were confident that the interim solutions ensured financial control.

A discussion took place regarding the Abacus and CareFirst systems which included:

- If completion was not taking place until March 2016 a progress report needed to come back to Committee in January 2016 in order to make certain that the safeguards and controls were in place in order that these issues did not go beyond March 2016

- Concerns regarding the time, effort and money spent in integrating the two systems
- Skills to rebuild the system within the Council
- Restructured services to bring clear ownership of systems
- Significant improvement over last 6 months
- The right people in the right place to deliver the project

It was suggested that the Service Delivery Manager: Service Improvement and Efficiency and the Team Leader Business Support be invited to attend at the January 2016 meeting in order to reassure the Committee and it was asked that they bring along the project plan.

The Director of Care, Health and Wellbeing informed the Committee that there was no detrimental impact to people who required care.

Unbilled Income

Due to the inadequacies of the system it was difficult to demonstrate the area of significant concern as automated reports were not available through the system and it was also difficult to assess the loss of income.

Adult social care funding was means tested in order to prove eligibility for support. If clients were self-funders then they would be responsible for paying and arranging all of their care themselves and no other appropriate person was willing to do so, then the Authority would arrange this on their behalf and claim back the total cost. Some clients were not liable to contribute anything, whereas most others contributed on a sliding scale from £0 to £200-£300 per week on the highest level of disposable weekly income. There was concern that clients were not making contributions towards care, although this was not as severe as first thought. There were situations where customers were exempt from paying for their individual care, for example:

- If a person was under S117 of the Mental Health Act, then the Local Authority could not charge for the costs of the aftercare
- Enablement whereby up to 6 weeks of care following discharge from hospital is non-chargeable.

Without a fully integrated system this information was difficult to tie together.

Several issues had been identified and interim solutions put in place:

- Financial assessment not done early enough -
 - This was now undertaken earlier on in the process, enabling changes to commence from the earliest point;
- Checks had now been introduced on all new people entering the system on a monthly basis to ensure that billing arrangements were in place. There had been a significant improvement in the situation and within period four, 22 people had been identified where charging had not been introduced and corrective action had been undertaken.

The Care Act funding reforms had been put on hold until April 2020. These reforms would have brought more people into the Council's funding system following the raising of the capital threshold from £23,250 to £118,000. They would have also introduced complex arrangements whereby the Local Authority would pay for care costs and the individual would pay for the accommodation costs. A cap would have been introduced at £72,000 on any care spend and once this threshold had been reached the Council would have become responsible for any remaining funding. These changes would have been introduced from 1st April 2016.

The Chair suggested that if there were any comments on these issues that they be fed through to the Audit and Information Governance Manager.

AUC-21 CALDICOTT GUARDIAN ANNUAL REPORT

The Director of Care, Health and Wellbeing gave an overview with regard to the roles and responsibilities of the Council's compliance with the revised Caldicott Principles and the requirements of the Data Protection Act 1998.

The Caldicott Guardian (CG) was responsible for safeguarding and governing the uses of personal care information within the Council. He actively supported work to facilitate and enable care information sharing and provided advice on options for lawful and ethical processing of information as required. Key responsibilities were:

- Strategy & governance
- Confidentiality & data protection expertise
- Internal information processing
- Information sharing

The current CG was the Director of Care, Health and Wellbeing.

The progress on previously identified actions could be found at 4.9-4.20 of the report with the action plan for 2015-17 at 4.21 of the report.

Quarterly meetings took place with the CG/SIRO/Senior Management Team and the Information Governance Team Leader in order to discuss governance issues and actions.

Members commented that this was a comprehensive report which gave a feeling of good governance which met regulations.

RESOLVED – that:

- a) **the contents of the Caldicott Guardian's Annual Report be noted; and**
- b) **Audit Committee receive further such reports on an annual basis commencing June 2016, with a progress update in September as part of the general Information Governance update.**

AUC-22 REVIEW OF STRATEGIC RISK REGISTER – JULY 2015

The Delivery & Planning Manager presented the review of the Strategic Risk Register.

The strategic risk register enabled the Council to meet its statutory requirements under the Accounts and Audit Regulations 2015 and was a means for the Council to identify and manage the substantive issues which could impact negatively on the delivery of the Council's priorities. It is used to understand key risks and how they were mitigated and actions then put in place to manage these risks.

The register was reviewed and updated on a regular basis in order to ensure the appropriate management of these risks and to make sure they were current risks. Appendix A to the report set out the risks identified for 2015/16.

A discussion took place including:

- Significant Projects not included in register but were within the project framework
- The processes of the risk register
- Child and vulnerable adult risks

It was suggested that in order to give the Committee further assurance that the following strategic risks being managed through appropriate significant projects be brought to the January 2016 meeting:

- Single Status
- Better Care Fund and Care Act, Social Care Change Board
- Housing Investment Programme

Following the discussion it was:

RESOLVED – that the strategic risks in Appendix A be noted.

AUC-23 PUBLICATION OF INFORMATION ON COUNCILLORS WHO TRADED WITH THE COUNCIL DURING 2014/15

The Audit & Information Governance Manager presented the report on the Councillors who traded with the Council during 2014/15.

This information was collected as part of the final accounts process and represented information for 2014/15 and was reported to Audit Committee in order to improve transparency.

RESOLVED – that the contents of the report and information that would be published on the Council's website be noted.

AUC-24 AUDIT COMMITTEE ANNUAL REPORT 2014/15

The Audit & Information Governance Manager presented the Audit Committee Annual Report.

The report would be presented by the Chair to the Council meeting on the 1st October 2015.

The structure of the report had been based on the Committee's Terms of Reference and included a summary of the business conducted by the Committee during the reporting period, which could be found at Appendix A to the report.

The Audit Committee held 3 meetings per year in June, September and January, each with comprehensive agendas. In addition to the scheduled meetings there was scope to call additional meetings whenever required.

RESOLVED – To RECOMMEND to COUNCIL that the contents of the annual report 2014/15 be noted.

AUC-25 2015/16 INTERNAL AUDIT QUARTER 1 UPDATE REPORT AND INFORMATION GOVERNANCE UPDATE REPORT TO END JULY 2015

The Audit & Information Governance Manager reported on the Internal Audit Quarter 1 Update and the Information Governance Update.

The Internal Audit Quarter 1 update provided information on the work of Internal Audit from 1st April – 30th June 2015 and provided an update on the progress of previous audit reports (issued October 2012-March 2015).

The key focus for the team during quarter 1 had been the commencement of the 2015/15 plan. In addition to this was the outstanding IT Audits from 2014/15.

The Team had moved offices which had been a great improvement from a work point of view.

Appended to the report were the following:

- **Appendix A** – list of final reports issued in quarter 1 with grading – red, amber, yellow or green and included budget time, actual time and percentage variance;
- **Appendix B** – list of all work undertaken for quarter 1 for a period of 1 day or more
- **Appendix C** – previous graded reports from October 2012 to March 2015 with their current status.
- **Appendix D** – Summary of the 2 amber reports issued in quarter 1

Appendix C to the report was important as it showed the progress of Red/Amber reports:

- Abacus – a further update on this had been received earlier in the meeting
- Moorfield Primary – follow up to take place shortly now the schools have returned following the summer break
- Shared lives had progressed from red to green
- Direct payments had received a follow up and an external review
- Adults Safeguarding had moved from red to green
- Holy Trinity Academy had progressed from Red to Yellow. This was a new school that had only just opened following the summer break. A new head was in place and a follow up was due to take place in order to confirm that the issues had been resolved and procedures had been implemented

Information Governance Update April – July 2015

This was the annual work on the work of Information Governance. Appendix E to the report set out the work programme and a summary of progress to date.

The Council had received 222 FOI requests during quarter 1 of 2015/15 as well as 39 EIR requests in the same period.

For the same period, 14 Subject Access Requests (SARS) had been received and 1 appeal from a requestor who was not satisfied with the response they had received from the information request. This appeal was not upheld.

No new referrals had been made to the ICO although the team were still dealing with 1 ICO complaint from 2014/15 which had gone to the First Tier Tribunal. The decision was awaited.

During the reporting period 8 data breaches had been identified, although none of these met the Information Commissions rationale for reporting serious breaches. Information Governance was continuing to work with these Service Areas to ensure they improve procedures and disciplinary action taken where appropriate. Lessons learn from security incidents during the first half of the year would be shared across the Council in early October 2015.

A discussion took place including:

- Amber report on Charlton School

Following the discussion it was:

RESOLVED – that the Internal Audit and Information Governance update information for the first part of 2015/16 be noted.

AUC-26 EXCLUSION OF PRESS AND PUBLIC

RESOLVED – that the press and public be excluded from the meeting for the following item of business on the grounds that it may involve the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

AUC-27 CAPITAL RECEIPTS UPDATE

The Service Delivery Manager for Regeneration and Investment gave a verbal update on capital receipts.

The disposals of assets were at different stages:

- Sold and funds received
- Completion
- Sold Subject to Contract
- Currently being advertised for sale
- Seeking Planning Permission

As additional sites were identified for disposal they were added to the disposal programme but the overall income target was maintained to reduce reliance on any one receipt. Market conditions continued to be strong which it was hoped would be reflected in values and the timeliness of disposals.

A discussion took place including:

- Full market value of sales
- Residential sites
- Commercial sites
- Employment opportunities
- Vacant sites

The meeting ended at 7.44 pm

Chairman:

Date:

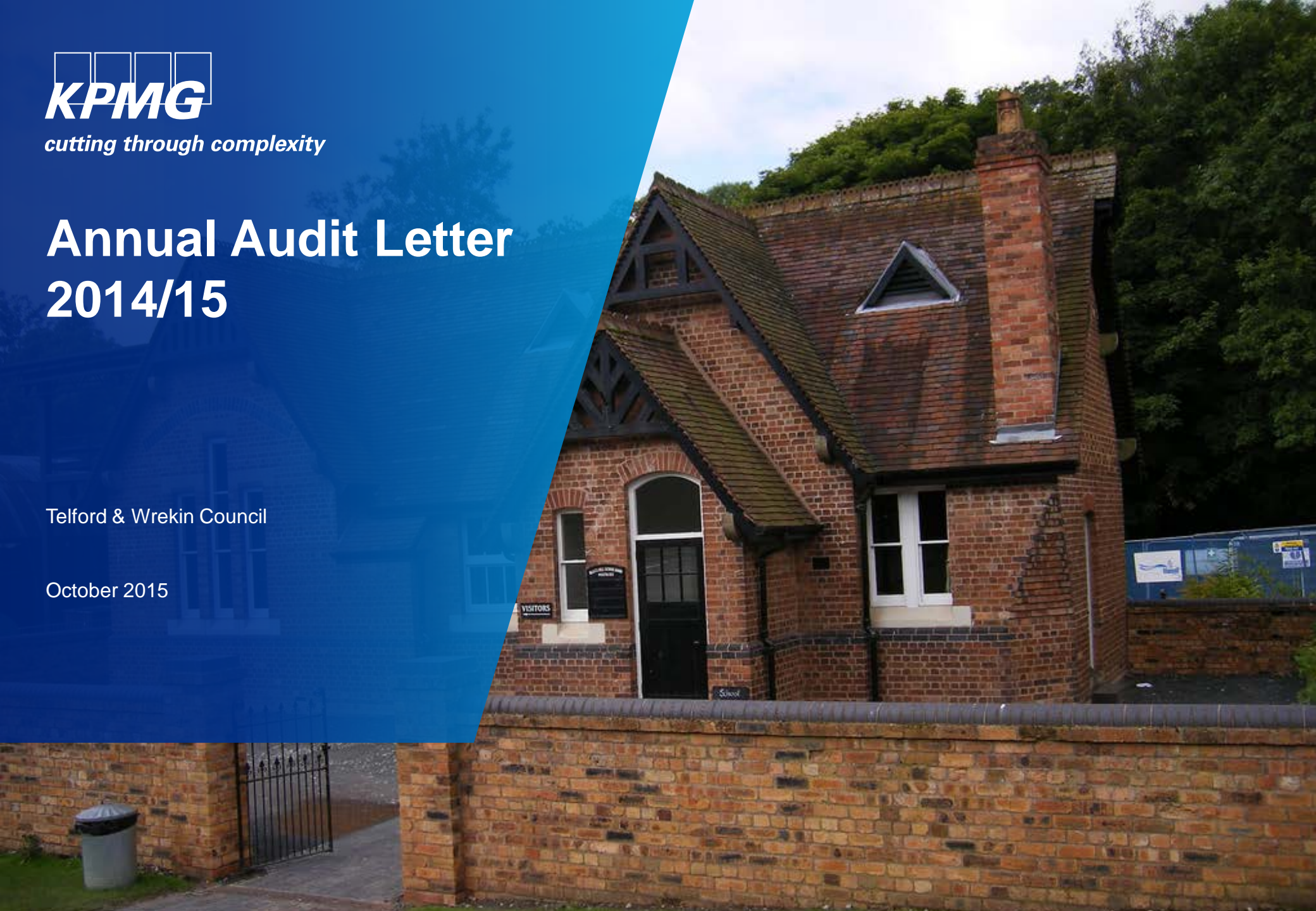


cutting through complexity

Annual Audit Letter 2014/15

Telford & Wrekin Council

October 2015



The contacts at KPMG in connection with this report are:

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Cover Picture: School at Blists Hill Museum

Report sections

■ **Headlines**

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Appendices

1. **Summary of reports issues**

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2. **Audit fees**

4

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies* summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psa.co.uk).

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Ian Pennington, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Trevor Rees (on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

This report summarises the key findings from our 2014/15 audit of Telford & Wrekin Council (the Authority).

Although this letter is addressed to the Members of the Authority, it is also intended to communicate these issues to key external stakeholders, including members of the public.

Our audit covers Authority's 2014/15 financial statements and the VFM conclusion for that year.

All the issues in this Annual Audit Letter have been previously reported. The detailed findings are contained in the reports we have listed in Appendix 1.

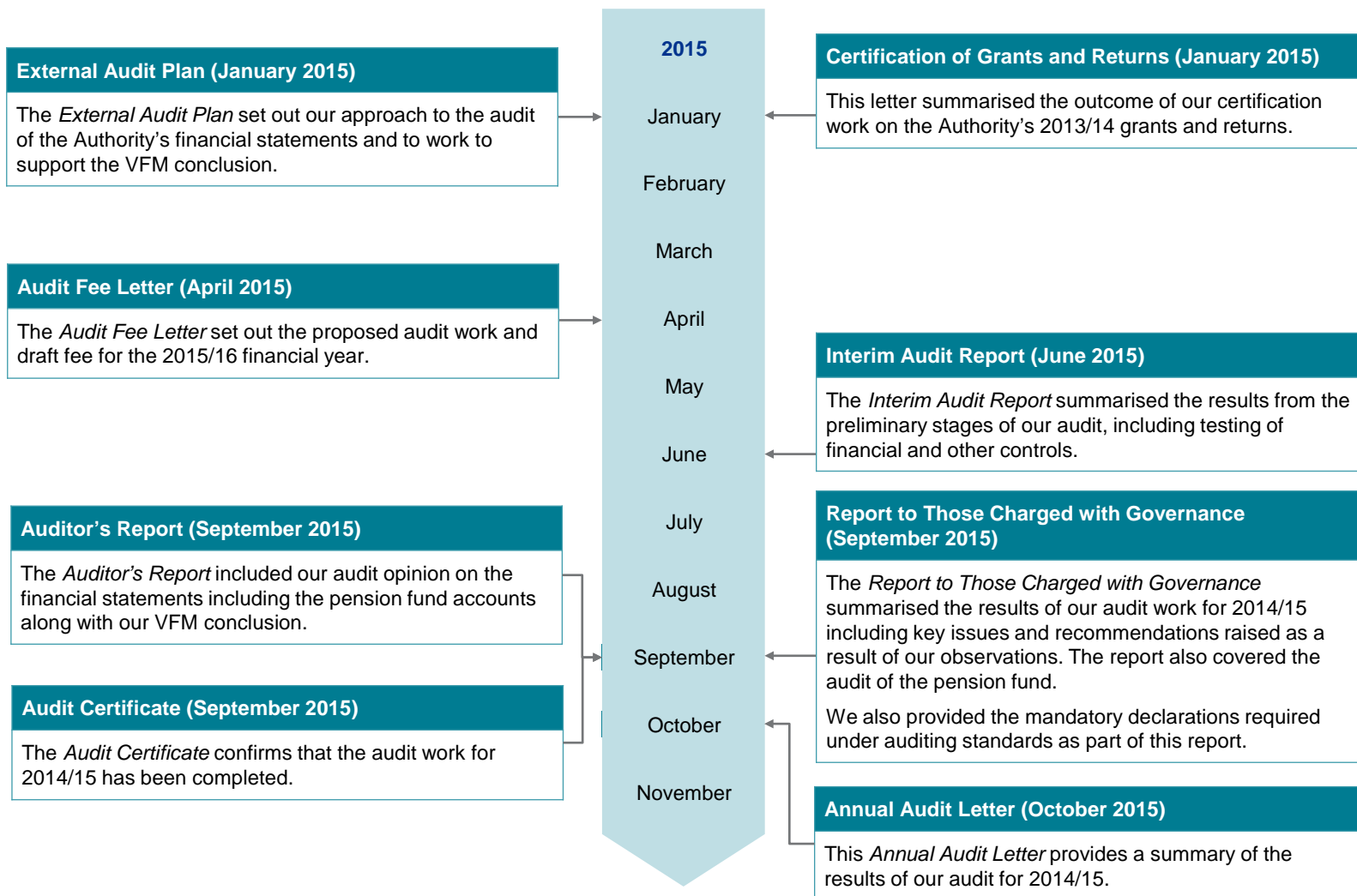
VFM conclusion	<p>We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2014/15 on 20 September 2015. This means we are satisfied that that Authority had proper arrangements for securing financial resilience and challenging how it secures economy, efficiency and effectiveness.</p> <p>To arrive at our conclusion we looked at the Authority's financial governance, financial planning and financial control processes, as well as the arrangements for prioritising resources and improving efficiency and productivity.</p>
VFM risk areas	<p>We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks.</p> <p>Our work identified the following significant matters:</p> <ul style="list-style-type: none"> ■ Savings Plan; and ■ Commercial Projects. <p>In relation to each of these, we confirmed that the Authority had appropriate processes and controls in place to secure value for money.</p>
Audit opinion	<p>We issued an unqualified opinion on the Authority's financial statements on 20 September 2015. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year.</p>
Financial statements audit	<p>We are pleased to report that our audit of your financial statements did not identify any material adjustments. We identified a number of adjustments of a presentational nature, and the Authority adjusted these accordingly.</p>
Annual Governance Statement	<p>We reviewed your <i>Annual Governance Statement</i> and concluded that it was consistent with our understanding.</p>
Whole of Government Accounts	<p>We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the Authority's pack was consistent with the audited financial statements.</p>
High priority recommendations	<p>We raised no high priority recommendations as a result of our 2014/15 audit work.</p>

All the issues in this Annual Audit Letter have been previously reported. The detailed findings are contained in the reports we have listed in Appendix 1.

Certificate	As a result of ongoing work in relation to questions raised by electors, we have not yet issued our certificate confirming that we have concluded the audit for 2014/15 in accordance with the requirements of the <i>Audit Commission Act 1998</i> and the Audit Commission's <i>Code of Audit Practice</i> .
Audit fee	Our fee for 2014/15 was £160,808, excluding VAT. This was £5,720 higher than the planned fee. Further details are provided in appendix 2.

Appendix 1: Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter.



This appendix provides information on our final fees for the 2014/15 audit.

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2014/15 planned audit fee.

External audit

Our final fee for the 2014/15 audit was £160,808. This compares to a planned fee of £155,088. The reasons for this variance is additional work required in relation to

- non-domestic rates accounting entries as a result of the cessation of the auditor certification of the NNDR3 return which previously provided evidence of use to the financial statement audit. The value of this work was £1,070; and
- questions raised by an elector in relation to the management of the Wrekin Trundle Project. The proposed value of this additional work was £4,650. These fees are still subject to final determination by Public Sector Audit Appointments.

In addition, we are still undertaking work as a result of questions raised by an elector over the Station Road, Newport site. The fees arising from this work are still to be determined and will be subject to agreement with both the Authority and Public Sector Audit Appointments.

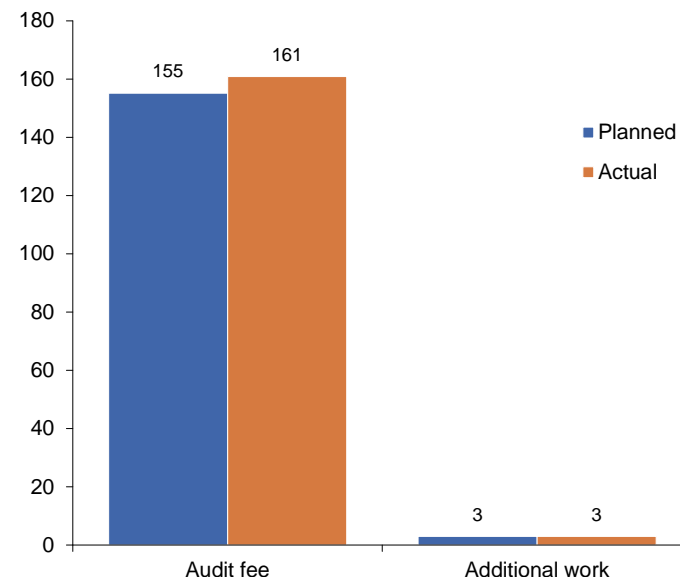
Certification of grants and returns

Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is still ongoing. The final fee will be confirmed through our reporting on the outcome of that work in January 2016.

Other services

We charged £3,000 for additional audit-related services for the certification of the Teachers' Pensions Return. This is the same as the fee charged for this work in 2013/14.

External audit fees 2014/15 (£'000)





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KPMG Annual Report on grants and returns work 2014/15

Telford and Wrekin Council

January 2016



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■ Headlines	2
■ Summary of certification work outcomes	3
■ Fees	4

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

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

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

Introduction and background	<p>This report summarises the results of work we have carried out on the Council's 2014/15 grant claims and returns.</p> <p>This includes the work we have completed under the Public Sector Audit Appointment certification arrangements, as well as the work we have completed on other grants/returns under separate engagement terms. The work completed in 2014/15 is:</p> <ul style="list-style-type: none"> ■ Under the Public Sector Audit Appointment arrangements we certified one claim – the Council's 2014/15 Housing Benefit Subsidy claim. This had a value of £72 million. ■ Under separate assurance engagements we certified the Teachers' Pension Contributions return for the year ended 31 March 2015 with a value of £9 million 	<p>-</p>
Certification results	<p>Our work on the Council's Housing Benefit Subsidy claim resulted in an unqualified certificate.</p> <p>We issued a reasonable assurance report in relation to the Teachers' Pension Contributions return, with no issues being reported.</p>	<p>Page 3</p>
Audit adjustments	<p>No Adjustments were necessary to either of the Council's grants and returns as a result of our certification work this year.</p>	<p>Page 3</p>
Fees	<p>The indicative fee for our work on the Council's 2014/15 Housing Benefit Subsidy was set by Public Sector Audit Appointments at £9,540. The actual fee for this work was the same as the indicative fee.</p> <p>Our fees for the Teachers' Pension Return was agreed directly with the Council, and was £3,000.</p>	<p>Page 4</p>

Overall, we carried out work on two grants and returns. Neither of these required qualification or adjustment.

This is a summary of the reporting outcomes from our work on the Council's 2014/15 grants and returns, showing where either audit amendments were made as a result of our work or where we had to qualify our audit certificate or assurance report.

A qualification means that issues were identified concerning the Council's compliance with a scheme's requirements that could not be resolved through adjustment. In these circumstances, it is likely that the relevant grant paying body will require further information from the Council to satisfy itself that the full amounts of grant claimed are appropriate.

	Qualified	Significant adjustment	Minor adjustment	Unqualified
Public Sector Audit Appointments arrangements				
■ Housing Benefit Subsidy				
Other assurance engagements				
■ Teacher's Pension Contributions				
	-	-	-	2

Fees

Our fees for the Housing Benefit Subsidy claim are set by Public Sector Audit Appointments.

Our fees for other assurance engagements on grants/returns are agreed directly with the Council.

The overall fees we charged for carrying out all our work on grants/returns in 2014/15 was £12,540.

Breakdown of fees for grants and returns work

Breakdown of fee by grant/return		
	2014/15 (£)	2013/14 (£)
Housing Benefit Subsidy claim	9,540	12,319
Teachers' Pension Contributions	3,000	3,000
Total fee	12,540	15,319

Public Sector Audit Appointments certification arrangements

Public Sector Audit Appointments set an indicative fee for our work on the Council's Housing Benefit Subsidy claim in 2014/15 of £9,540. Our actual fee was the same as the indicative fee, and this compares to the 2013/14 fee for this claim of £12,319.

Grants subject to other assurance engagements

The fees for our assurance work on the Teachers' Pension Contribution return is agreed directly with the Council. Our fees for 2014/15 were the same as those charged in 2013/14.



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TELFORD & WREKIN COUNCIL

AUDIT COMMITTEE – 26 JANUARY 2016

CABINET – 25 FEBRUARY 2016

COUNCIL – 3 MARCH 2016

2016/17 TREASURY STRATEGY AND TREASURY UPDATE REPORT

REPORT OF THE CHIEF FINANCE OFFICER (ASSISTANT DIRECTOR: FINANCE & HUMAN RESOURCES)

LEAD CABINET MEMBER – CLLR LEE CARTER

PART A – SUMMARY REPORT

1. SUMMARY OF MAIN PROPOSALS

The report updates members on Treasury Management activities during 2015/16 and details the Treasury Strategy recommended to be adopted for 2016/17

2015/16 Treasury Management Update

The treasury portfolio at the end of December showed overall net indebtedness of £130.4m (borrowing: £159.0m less investments: £28.6m). Base rates have remained at 0.5% all year with the next move expected to be upwards, perhaps in the second half of 2016.

The borrowing strategy for 2015/16 is to use maturing investments to reduce borrowing and then start to take new borrowing within shorter maturities before gradually lengthening maturities. To date, part of our 2 EIP PWLB loans have matured and no new loans have been taken out. Short term borrowing has been used to fund short term cash flow requirements and take advantage of low interest rates.

Commercial Schemes within External Borrowing

	31/03/15 Actual £m	31/03/16 Estimate £m	31/03/17 Estimate £m	31/03/18 Estimate £m	31/03/19 Estimate £m
External Borrowing from 5.1.3	116.613	167.129	220.190	232.288	232.680
Housing Investment programme - Houses	0.000	10.332	40.358	45.742	45.742
Housing Investment programme - PIP	0.025	0.075	6.180	6.180	6.180
Solar Farm	3.692	3.719	3.719	3.719	3.719
PIP	1.611	2.500	14.021	19.021	24.021
External Borrowing excluding Commercial Schemes	111.285	150.503	155.912	157.626	163.018

The investment strategy for 2015/16 is to gain maximum benefit with security of principal sum invested being the primary consideration. The weighted average

return on internal investments at the end of December 2015 was 0.43% compared to a benchmark return for the period of 0.30%. A schedule of short-term investments is shown at Appendix F.

TREASURY STRATEGY

The Council's Treasury Management Strategy is set within the parameters of the relevant statute, guidance and accounting standards which include the Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services and the Prudential Code.

The Council is currently expected to be required to borrow up to £53.1m in 2016/17 based on the current capital programme plans and will adopt a flexible approach to borrowing. In consultation with its treasury management advisors consideration will be given to affordability, maturity profile of existing debt, interest rate and refinancing risk as well as borrowing source, which is primarily expected to be the Public Works Loan Board, but may also include the LGA Municipal bonds Agency, European Investment Bank or commercial sources.

The strategy for any investments will generally be to reduce investments in order to reduce counter-party risk and to reduce net interest costs as longer-term borrowing rates will tend to be greater than we are able to earn on new investments, but we will look to lengthen investment periods, where cash flow permits, to achieve higher interest rates within acceptable risk parameters. Maximum investment levels with counterparties will be set to ensure prudent diversification is achieved whilst recognising that strict investment criteria that the Council applies severely reduces the number of suitable available counterparties and therefore sums with individual counterparties may be up to £15m at any one time. Reduced from £20m in view of the lower level of investment fund and to spread risk.

The report also includes the Council's Minimum Revenue Provision Statement, this has been updated to state the exact policy in use for each borrowing type and will apply from 2015/16. Overall the policy is broadly in line with that previously agreed, however it is being extended to include the Public Finance Initiative (PFI) Agreement and we have changed the way we are charging MRP in respect of historic borrowing. This includes backdating of the adjustments back to the start of the prudential regime. This will produce net savings in 2015/16 of £5.3m, 2016/17 of £5.7m, 2017/18 £5.3m, 2018/19 £2.4m and 2019/20 £2.4m, these remain at broadly this level until 2033/34 before ultimately becoming a cost. If a net present value calculation is done to the savings using the government's green book discount rate, then the present value of the saving is over £50m. This change and saving reflects the time value of money.

The change, particularly in relation to the PFI MRP, will increase the level of borrowing over the medium term as MRP is not set aside out of the revenue budget. By the end of the life of the asset the impact on borrowing is nil.

The report also sets the Prudential Indicators associated with Treasury for 2016/17.

It should be noted that there may be some changes to the Treasury Strategy before it is presented to Cabinet on 26 February as further information becomes available. The final strategy will be circulated to Audit Committee Members for information with any significant changes highlighted.

2. RECOMMENDATIONS

Members are asked to

1. Note the treasury management activities for the first half year,
2. Note the Treasury Management Policy Statement (Appendix A) and
3. Approve the Treasury Strategy, including the Annual Investment Strategy for 2016/17 together with the associated treasury Prudential Indicators and the Minimum Revenue Provision Statement, which will apply from 2015/16 onwards.

3. SUMMARY IMPACT ASSESSMENT

COMMUNITY IMPACT

Do these proposals contribute to specific priority plan objectives?

Yes/ No Maximisation of investment income whilst managing risks and minimising borrowing costs whilst also managing risks helps to support the council's overall financial position and therefore the delivery of all policy objectives.

Will the proposals impact on specific groups of people?

Yes/
No

TARGET COMPLETION / DELIVERY DATE

Part of ongoing Treasury Management Activities within the Treasury Management Strategy and Policy approved by Council.

FINANCIAL/VALUE FOR MONEY IMPACT

Yes/ No Where appropriate these are detailed in the body of the report.

LEGAL ISSUES

Yes/ No The Council's Treasury Strategy has to comply with the relevant statute, codes and guidance which are set out both in the main body of this report and Appendices A and C of the strategy itself (Attached).

The Assistant Director: Finance & Human Resources (Section 151 Officer) has responsibility for the administration of the financial affairs of the Council. In providing this report the Assistant Director: Finance & Human Resources is meeting one of the responsibilities of the post contained within the Council's Constitution at Part 2, Article 12, paragraph 12.04(f) which states "The Chief financial Officer will contribute to the promotion and maintenance of high standards of governance, audit, probity and propriety, risk management and the approval of the statement of accounts through provision of support to the Audit Committee."

OTHER IMPACTS, RISKS AND OPPORTUNITIES

Yes/ No The key opportunities and risks associated with treasury management activities are set out in the body of the report and in the Treasury Management Strategy and Policy approved by Council and will be regularly monitored throughout the year.

IMPACT ON SPECIFIC WARDS

Yes/
No

PART B – ADDITIONAL INFORMATION

4. 2015/16 TREASURY MANAGEMENT UPDATE

4.1 CURRENT PORTFOLIO POSITION

	31 March 15	31 Dec 15
	Principal	Principal
	£m	£m
Fixed Rate Borrowing - PWLB	28.520	28.020
Fixed Rate Borrowing - LOBO	60.000	60.000
Variable Rate Borrowing - market	<u>28.093</u>	<u>71.000</u>
Total Debt	116.613	159.020
Investments - in-house	<u>3.778</u>	<u>28.601</u>
Total Investments	3.778	28.601
Net Indebtedness	112.835	130.419

4.2 INTEREST RATES

Base rates began the year at 0.5% and have remained unchanged all year. The Bank of England Quantitative Easing programme remained at £375bn. The next move in the base rate is expected to be upwards, some time in the second half of 2016 and will be strongly linked to the recovery of the economy.

4.3 BORROWING & RESCHEDULING

The borrowing strategy for the current year has been to borrow temporarily to take advantage of low interest rates where possible and to undertake new longer term borrowing initially in shorter maturities before gradually extending maturities.

Rescheduling

During 2015/16 no rescheduling has taken place as market conditions have not been favourable, however the scope for opportunities is regularly monitored.

New Borrowing

Between the period 1 June 2015 (previous Member update) and 31 December 2015, £199.8m of temporary loans have been raised in order to fund short-term cash flow requirements at various points. Interest rates have ranged from 0.28% to 0.53% - interest rates have remained fairly low during this time. £71.0m of this temporary borrowing was outstanding at 31 December 2015. No long term borrowing has been undertaken in the year to date.

4.4 INVESTMENTS

The strategy for the current year is: The Authority's objective when investing money is to strike an appropriate balance between risk and return.

4.4.1 In-House Investments

The majority of the Council's investments are internally managed – currently just temporary investments for cash flow purposes.

Temporary Investments

All the funds are invested by the Council's own officers in order to maximise returns from day to day cash flows

In total £1,443m of investments were placed between 1 June and 31 December. Interest rates have ranged from 0.35% to 0.45% and periods ranged from overnight deposits to 38 days. £28.601m in house temporary investments were held at 31 December 2015.

Longer Term Investments

A number of internally managed deposits have been made previously. We currently hold no longer term investments.

It should be noted that under the current guidance from our Treasury Advisors our investment policy would mean that new investments should not be placed for longer than 13 months.

Overall the weighted average return on all internal investments for the year to date was 0.43% compared to a benchmark return for the period of 0.30%.

4.4.2 Overall Position and Exposure

A full analysis of all Council investments at the end of December is shown in Appendix F.

Our current counterparty limit and maximum exposure is £20.0m for the current year with any one counterparty. At the end of December the greatest exposure with a single counterparty was £10.7m with Lloyds Bank (37% of the total portfolio).

The Council is guided by its Treasury advisers, Arlingclose, in assessing investments.

4.5 LEASING

Each year the Council arranges operating and finance leases for assets such as vehicles, computers and equipment. This helps to spread the cost over a number of years.

The first drawdown for 2015/16 was completed in October. The drawdown from both Lloyds Bank and Cranmer Lawrence totalled £0.439m and funded the purchase of equipment over three and five years at interest rates of 1.20% and 1.42% respectively. A further lease drawdown is anticipated in March.

5. TREASURY STRATEGY FOR 2016/17 to 2018/19

5.1 BACKGROUND

5.1.1 The CIPFA Treasury Management Code of Practice

The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis. The TMSS also incorporates the Annual Investment Strategy as required under the CLG's Investment Guidance.

The purpose of this TMSS is, therefore, to approve the:

- Treasury Management Strategy for 2016/17
- Annual Investment Strategy for 2016/17
- Prudential Indicators for 2016/17, 2017/18, 2018/19 and 2019/20
- MRP Statement.

Treasury Management is about the management of risk. The Authority is responsible for its treasury decisions and activity. No treasury management activity is without risk.

The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

As per the requirements of the Prudential Code, the Authority adopted the CIPFA TM Code at a meeting of Full Council on 4 March 2010. In addition, the Department for Communities and Local Government (CLG) issued revised Guidance on Local Authority Investments in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year.

This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Guidance.

All treasury activity will comply with relevant statute, guidance and accounting standards.

The strategy takes into account the impact of the Council's Revenue Budget and Capital Programme on the Balance Sheet position, the current and projected Treasury position (Appendix B), the Prudential Indicators (Appendix C) and the outlook for interest rates (Appendix D).

5.1.2 External Context

Economic background: Domestic demand has grown robustly, supported by sustained real income growth and a gradual decline in private sector savings. Low oil and commodity prices were a notable feature of 2015, and contributed to annual CPI inflation falling to 0.1% in October. Wages are growing at 3% a year, and the unemployment rate has dropped to 5.4%. Mortgage approvals have risen to over 70,000 a month and annual house price growth is around

3.5%. These factors have boosted consumer confidence, helping to underpin retail spending and hence GDP growth, which was an encouraging 2.3% a year in the third quarter of 2015. Although speeches by the Bank of England's Monetary Policy Committee (MPC) members sent signals that some were willing to countenance higher interest rates, the MPC held policy rates at 0.5% for the 81st consecutive month at its meeting in November 2015. Quantitative easing (QE) has been maintained at £375bn since July 2012.

The outcome of the UK general election, which was largely fought over the parties' approach to dealing with the deficit in the public finances, saw some big shifts in the political landscape and put the key issue of the UK's relationship with the EU at the heart of future politics. Uncertainty over the outcome of the forthcoming referendum could put downward pressure on UK GDP growth and interest rates.

China's growth has slowed and its economy is performing below expectations, reducing global demand for commodities and contributing to emerging market weakness. US domestic growth has accelerated but the globally sensitive sectors of the US economy have slowed. Strong US labour market data and other economic indicators however suggest recent global turbulence has not knocked the American recovery off course. The Federal Reserve increased its policy rates at its meeting in December 2015. In contrast, the European Central Bank finally embarked on QE in 2015 to counter the perils of deflation.

Credit outlook: The varying fortunes of different parts of the global economy are reflected in market indicators of credit risk. UK Banks operating in the Far East and parts of mainland Europe have seen their perceived risk increase, while those with a more domestic focus continue to show improvement. The sale of most of the government's stake in Lloyds and the first sale of its shares in RBS have generally been seen as credit positive.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the UK, USA and Germany. The rest of the European Union will follow suit in January 2016, while Australia, Canada and Switzerland are well advanced with their own plans. Meanwhile, changes to the UK Financial Services Compensation Scheme and similar European schemes in July 2015 mean that most private sector investors are now partially or fully exempt from contributing to a bail-in. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however remain stubbornly low.

Interest rate forecast: The Authority's treasury advisor Arlingclose projects the first 0.25% increase in UK Bank Rate in the third quarter of 2016, rising by 0.5% a year thereafter, finally settling between 2% and 3% in several years' time. Persistently low inflation, subdued global growth and potential concerns over the UK's position in Europe mean that the risks to this forecast are weighted towards the downside.

A shallow upward path for medium term gilt yields is forecast, as continuing concerns about the Eurozone, emerging markets and other geo-political events weigh on risk appetite, while inflation expectations remain subdued. Arlingclose projects the 10 year gilt yield to rise from its current 2.0% level by around 0.3% a year. The uncertainties surrounding the timing of UK and US interest rate rises are likely to prompt short-term volatility in gilt yields.

5.1.3 Local Context

The Authority's current level of debt and investments is set out at Appendix B.

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The CFR, together with Usable Reserves, are the core drivers of the Authority's Treasury Management activities.

The Authority is able to borrow funds in excess of the current level of its CFR up to the projected level in 2019/20. The Authority is likely to only borrow in advance of need if it felt the benefits of borrowing at interest rates now compared to where they are expected to be in the future, outweighs the current cost and risks associated with investing the proceeds until the borrowing was actually required.

The forecasted movement in the CFR in coming years is one of the Prudential Indicators (PIs). The movement in actual external debt and usable reserves combine to identify the Authority's borrowing requirement and potential investment strategy in the current and future years.

The estimates, based on the current Revenue Budget and Capital Programmes, are:

	31/03/15 Actual £m	31/03/16 Estimate £m	31/03/17 Estimate £m	31/03/18 Estimate £m	31/03/19 Estimate £m
Capital Financing Requirement	295.535	351.956	407.229	421.653	421.824
Less: Other long term liabilities (e.g. PFI)	-58.964	-57.813	-58.260	-56.408	-54.167
Borrowing CFR	236.571	294.143	348.969	365.245	367.657
Less: External Borrowing	-116.613	-167.129	-220.190	-232.288	-232.680
Internal Borrowing	119.958	127.014	128.779	132.957	134.977
Less: Usable reserves	-63.343	-63.343	-63.343	-63.343	-63.343
Less: Working capital	-52.837	-63.671	-65.436	-69.614	-71.634
Investments	3.778	0.000	0.000	0.000	0.000

Commercial Schemes within External Borrowing

External Borrowing from Above	116.613	167.129	220.190	232.288	232.680
Housing Investment programme - Houses	0.000	10.332	40.358	45.742	45.742
Housing Investment programme - PIP	0.025	0.075	6.180	6.180	6.180
Solar Farm	3.692	3.719	3.719	3.719	3.719
PIP	1.611	2.500	14.021	19.021	24.021
External Borrowing excluding Commercial Schemes	111.285	150.503	155.912	157.626	163.018

The table above shows an increasing Capital Financing Requirement and will require the Council to undertake additional longer term borrowing as well as converting from temporary borrowing we currently hold to fixed borrowing at the best time for the Council dependent on market conditions.

The row relating to external borrowing includes debt associated with funding the Council's proposed Housing Investment Programme together with associated PIP development and other commercial investments in 2015/16. The projected income from these projects is projected to generate a surplus after funding the debt and operational costs. The outstanding debt relating to the Housing Investment Programme will be repaid by the eventual sale of some or all of the properties held by the Council's wholly owned company. The proceeds of any partial disposals will be used to reduce the outstanding debt until the whole amount of debt used to fund the investment has been repaid.

5.1.4 Borrowing Strategy

The Authority currently holds £159.020 million of loans, an increase of £42.4 million on the previous year end. The Council also holds £57.813 million of other longer term liabilities (mainly PFI). The balance sheet forecast in the above table shows that the Authority expects borrowing to increase by year end and continue to increase over the next few years until capital receipts are realised. The Authority may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing.

The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow using short-term loans instead.

By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. Whilst such a strategy is most likely to be beneficial over the next 1-2 years as official interest rates remain low, it is unlikely to be sustained in the medium-term. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2016/17 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The Authority will also evaluate forward-fixing long-term loans which start at a date in the future, say 12-36 months ahead. Such loans benefit the Authority by fixing a known rate for future borrowing commitments without incurring the funding cost in the intervening period.

In addition, the Authority may borrow short-term loans to cover exceptional cash flow shortages.

The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board and any successor body
- LGA Bond Agency
- UK local authorities, including Fire and Police Authorities
- any institution approved for investments (see below)
- any other bank or building society authorised by the Prudential Regulation Authority to operate in the UK
- UK public and private sector pension funds
- capital market bond investors
- European Investment Bank
- Local Authority Capital Finance Company and other special purpose companies created to enable joint local authority bond issues.

The Authority has previously raised a significant part of its long-term borrowing from the Public Works Loan Board, but it continues to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates.

LGA Bond Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities may be required to provide bond investors with a joint and several guarantee over the very small risk that other local authority borrowers default on their loans; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

LOBOs: The Authority holds £60m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. £55m of these LOBOS have options during 2016/17, and although the Authority understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk, which will arise at some point in the future when interest rates increase. The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so. Total borrowing via LOBO loans will be limited to £60m. Short-term and variable rate loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

Debt Rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Some bank lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall saving or reduction in risk. Treasury management and borrowing strategies in particular continue to be influenced not only by the absolute level of borrowing rates but also the relationship between short and long term interest rates. The interest rate forecast provided in Appendix D indicates that an acute difference between short and longer term interest rates is expected to continue. This difference creates a "cost of carry" for any new longer term borrowing where the proceeds are temporarily held as investments because of the difference between what is paid on the borrowing and what is earned on the investment. Whilst the cost of carry can be assumed to be a reasonably short-term issue since borrowing is often for longer dated periods (anything up to 50 years) it cannot be ignored against a backdrop of uncertainty and affordability constraints in the Authority's wider financial

position.

5.2 Investment Strategy

The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves. In the past 12 months, the Authority's investment balance has ranged between £4 million and £38 million, and levels are expected to reduce in the forthcoming year now that long term investments have matured and been used to avoid/reduce borrowing.

Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

The Authority may invest its surplus funds with any of the counterparties in table 2 below, subject to the cash and time limits shown.

Approved Investment Counterparties

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£15m 5 years	£15m 20 years	£15m 50 years	£7.5m 20 years	£15m 20 years
AA+	£15m 5 years	£15m 10 years	£15m 25 years	£7.5 m 10 years	£15m 10 years
AA	£15m 4 years	£15m 5 years	£15m 15 years	£7.5m 5 years	£15m 10 years
AA-	£15m 3 years	£15m 4 years	£15m 10 years	£7.5m 4 years	£15m 10 years
A+	£15m 2 years	£15m 3 years	£15m 5 years	£7.5m 3 years	£15m 5 years
A	£15m 13 months	£15m 2 years	£15m 5 years	£7.5m 2 years	£15m 5 years
A-	£15m 6 months	£15m 13 months	£15m 5 years	£7.5m 13 months	£15m 5 years
BBB+	£7.5m 100 days	£7.5m 6 months	£7.5m 2 years	£4m 6 months	£7.5m 2 years
BBB	£4m next day only	£4m 100 days	n/a	n/a	n/a
None	£0m 6 months	n/a	£4m 25 years	£1,000 5 years	£0m 5 years
Pooled funds	£10m per fund				

There is no intention to restrict investments to bank deposits, and investments may be made with any public or private sector organisations that meet the above credit rating criteria. The table reflects a lower likelihood that the UK and other governments will support failing banks as the bail-in provisions in the Banking Reform Act 2015 and the EU Bank Recovery and Resolution Directive are implemented.

Credit Rating: Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

Banks Unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB are restricted to overnight deposits at the Authority's current account bank.

Banks Secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

Registered Providers: Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed.

Pooled Funds: Shares in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period may be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Risk Assessment and Credit Ratings: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur.

Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “rating watch negative” or “credit watch negative”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other Information on the Security of Investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Regard will therefore be given to other available information on the credit quality of the organisations in which it invests as advised by our treasury advisors, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if our Treasury Advisors have raised substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority’s cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Specified Investments: The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
 - the UK Government,
 - a UK local authority, parish council or community council, or
 - a body or investment scheme of “high credit quality”.

The Authority defines “high credit quality” organisations as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of A- or higher.

Non-specified Investments: Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table 3 below.

The Council's purchase of shares in the Housing Wholly Owned Company (and any other wholly owned company) and subsequent loans to the company are service-related and are not included in the annual investment strategy.

Table 3: Non-Specified Investment Limits

	Cash limit
Total long-term investments	£25m
Total investments without credit ratings or rated below A-	£5m
Total investments (except pooled funds) in foreign countries rated below AA+	£5m
Total non-specified investments	£30m

It should be noted that the authority has an historic investment in Shropshire Waste Management shares totalling £33k which was transferred when the Unitary authority was created in 1998.

Investment Limits: The Authority has revenue reserves, which could be used to cover investment losses and are forecast to be £63 million on 31st March 2016 although not all of these are available. In order that no more than 50% of reserves (as recommended by the code) will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £15 million. A group of banks under the same ownership or a group of funds under the same management will be treated as a single organisation for limit purposes. Limits will also be placed on investments in brokers' nominee accounts (e.g. King & Shaxson), foreign countries and industry sectors as below:

Approved Instruments: The Authority may lend or invest money using any of the following instruments:

- interest-bearing bank accounts,
- fixed term deposits and loans,
- callable deposits and loans where the Authority may demand repayment at any time (with or without notice),
- callable deposits and loans where the borrower may repay before maturity, but subject to a maximum of £5 million in total,
- certificates of deposit,
- bonds, notes, bills, commercial paper and other marketable instruments, and
- shares in money market funds and other pooled funds.

Investments may be made at either a fixed rate of interest, or at a variable rate linked to a market interest rate, such as LIBOR, subject to the limits on interest rate exposures below.

Liquidity management: The Authority uses cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast

is compiled on a prudent basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

5.3 Ethical Investment

The Council will not knowingly directly invest in organisations whose activities include practices which directly pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the mission and values of the Council. At the same time the Council will take full responsibility for proper management of risk and safeguarding its investments by ensuring that they are diversified and made with organisations suitably credit assessed.

The Council's lending activity will be subject to (in order of rank)

- The assessment of meeting the minimum lending criteria as specified in the current Treasury Management Strategy and the minimum credit ratings as outlined in the Strategy;
- Meeting the Security, Liquidity & Yield criteria as set out in the current Treasury Management Strategy and Compliance with the Treasury Management Practice Statements;
- And investments are not contrary to the values outlined in the Ethical Investment Framework (Appendix G)

5.4 The Use of Financial Instruments for the Management of Risks

Policy on Use of Financial Derivatives: Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

5.5 Balanced Budget Requirement

The Authority complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

5.6 2016/17 MRP Statement

5.6.1 The Local Authorities (Capital Finance and Accounting)(England)(Amendment)

Regulations 08 (SI 08/414) place a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to “have regard” to such Guidance under section 21(1A) of the Local Government Act 2003.

5.6.2 The four MRP options available are:

- Option 1: Regulatory Method
- Option 2: CFR Method
- Option 3: Asset Life Method
- Option 4: Depreciation Method

NB This does not preclude other prudent methods.

5.6.3 MRP in 2016/17: Options 1 and 2 may be used only for supported expenditure. Methods of making prudent provision for self financed expenditure include Options 3 and 4 (which may also be used for supported expenditure if the Council chooses).

5.6.4 The MRP Statement will be submitted to Council before the start of the 2016/17 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put to Council at that time.

5.6.5 The Council will calculate MRP by the following methods.

Historic MRP (re pre 2007/08 borrowing). This will be calculated by dividing the balance at 31/3/07 (calculated in accordance with regulations) by 50 for an annual charge that charges over a finite period rather than a 4% reducing balance.

MRP in respect of prudential borrowing, government supported allocations since 2007/08 and PFI will be charged over the life of the asset on an annuity basis (option 3 in the regulations).

The policy in respect of historic borrowing and PFI is a change from current practice and will be applied from 2015/16 onwards. The calculation includes backdating of the adjustments back to the start of the prudential regime. This will produce a net savings in 2015/16 of £5.3m, 2016/17 of £5.7m, 2017/18 £5.3m, 2018/19 £2.4m and 2019/20 £2.4m, these remain at broadly this level until 2033/34 before ultimately becoming a cost. If a net present value calculation is done to the savings using the government’s green book discount rate, then the present value of the saving is over £50m. This change and saving reflects the time value of money.

Also MRP in respect of leases brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice will match the annual principal repayment for the associated deferred liability which is broadly in line with the life of the asset.

5.7 Monitoring and Reporting on the Treasury Outturn and Prudential Indicators

The Assistant Director: Finance & Human Resources will report to the Audit Committee on treasury management activity / performance and Performance Indicators as follows:

- half yearly against the strategy approved for the year. The Authority will produce an outturn report on its treasury activity no later than 30th September after the financial year end and an updated report alongside the Treasury Strategy in the last quarter of the financial year.
- Audit Committee will be responsible for the scrutiny of treasury management activity and practices rather than the Budget and Finance Scrutiny Committee.

6 Other Items

6.1 Training

CIPFA's Code of Practice requires the responsible officer to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. Full training will be made available for any new members following Annual Council in May 2016.

Reviewing and addressing training needs: The authority regularly reviews the training needs of its staff involved with treasury management and ensures that staff are appropriately trained.

6.2 Investment Consultants/Treasury Advisors

The Council uses Arlingclose as its external treasury management advisers.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review to ensure the quality of any such service is controlled. During 2015/16 the Council re-tendered the contract for the provision of this service and Arlingclose were successful for a further 3 years, with an extension option.

7. BACKGROUND PAPERS

CIPFA Code of Practice for Treasury Management in Local Authorities
 Temporary Borrowing Records
 PWLB records
 Investment records
 Draft Treasury Strategy provided by Arlingclose
 Local Government Act 2003
 CLG Guidance on Local Authority Investments
 Audit Commission – Risk and Return

Report prepared by
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 383100.

TREASURY MANAGEMENT POLICY STATEMENT

1. INTRODUCTION AND BACKGROUND

1.1 The Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 5 of the Code.

1.2 Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management:-

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
- Suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

1.3 The Council will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

1.4 The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Audit Committee and for the execution and administration of treasury management decisions to Assistant Director: Finance & Human Resources, who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

1.5 The Council nominates Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

2. POLICIES AND OBJECTIVES OF TREASURY MANAGEMENT ACTIVITIES

2.1 The Council defines its treasury management activities as:

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

2.2 This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

2.3 This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.”

2.4 The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council

transparency and control over its debt. The Council will look to minimise borrowing through the use of maturing investments to fund capital expenditure rather than reinvestment.

2.5 The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yield earned on investments remain important but are secondary considerations. Generally as investments mature they will not be reinvested but be used to minimise borrowing.

APPENDIX B

EXISTING PORTFOLIO PROJECTED FORWARD

	Current Portfolio £m	%	31/3/16 Estimate £m	31/3/17 Estimate £m	31/3/18 Estimate £m	31/3/19 Estimate £m	31/3/20 Estimate £m
External Borrowing:							
Fixed Rate – PWLB	28.0	13	47.1	110.2	122.3	122.7	98.4
Fixed Rate – Market	60.0	28	60.0	60.0	60.0	60.0	60.0
Variable Rate – PWLB	0.0	0	0.0	0.0	0.0	0.0	0.0
Variable Rate – Market	71.0	33	50.0	50.0	50.0	50.0	50.0
Total External Borrowing	159.0	74	167.1	220.2	232.3	232.7	208.4
IFRS Long Term Liabilities:							
PFI	56.9	26	57.3	55.5	53.3	50.9	49.7
Finance Leases	0.9	0	0.9	0.9	0.9	0.9	0.9
Total Gross External Debt	216.8	100	225.3	276.6	286.5	284.5	259.0
Investments: <i>Managed in-house</i>							
Short-term monies (Deposits/ monies on call /MMFs)	28.6	100	0.0	0.0	0.0	0.0	0.0
Long-term investments (maturities over 12 months)	0.0	0	0.0	0.0	0.0	0.0	0.0
Total Investments	28.6	100	0.0	0.0	0.0	0.0	0.0
(Net Borrowing Position)/ Net Investment position	(188.2)		(225.3)	(276.6)	(286.5)	(284.5)	(259.0)

Appendix C
Prudential Indicators 2016/17 – 2019/20

1 Background:

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA’s Prudential Code for Capital Finance in Local Authorities (the “CIPFA Prudential Code”) when setting and reviewing their Prudential Indicators.

2. Gross debt and the Capital Financing Requirement:

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional increases to the capital financing requirement for the current and next two financial years.

The Assistant Director: Finance & Human Resources reports that the authority had no difficulty meeting this requirement in 2015/16, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

3. Estimates of Capital Expenditure:

3.1 This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax.

Capital Expenditure	15/16 Approved £m	15/16 Revised £m	16/17 Estimate £m	17/18 Estimate £m	18/19 Estimate £m	19/20 Estimate £m
Total	110.380	92.469	88.522	37.597	15.293	6.256

**if applicable*

3.2 Capital expenditure will be financed or funded as follows:

Capital Financing	15/16 Approved £m	15/16 Revised £m	16/17 Estimate £m	17/18 Estimate £m	18/19 Estimate £m	19/20 Estimate £m
Capital receipts	25.752	2.868	5.814	7.037	10.810	25.000
Government Grants	25.334	30.332	21.508	15.162	4.091	5.556
Revenue / External contributions	3.879	4.975	8.139	3.300	0.000	0.000
Total Financing	54.965	38.175	35.461	25.499	14.901	30.556
Supported borrowing	1.268	1.398	0.000	0.000	0.000	0.000
Unsupported borrowing	54.147	52.896	53.061	12.098	0.392	-24.300
Total Funding	55.415	54.294	53.061	12.098	0.392	-24.300
Total Financing and Funding	110.380	92.469	88.522	37.597	15.293	6.256

4. Ratio of Financing Costs to Net Revenue Stream:

4.1 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code.

4.2 The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	15/16 Approved %	15/16 Revised %	16/17 Estimate %	17/18 Estimate %	18/19 Estimate %	19/20 Estimate %
Total	4.78	4.11	4.89	5.23	5.22	5.19

5. Capital Financing Requirement:

5.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and its financing.

Capital Financing Requirement	15/16 Approved £m	15/16 Revised £m	16/17 Estimate £m	17/18 Estimate £m	18/19 Estimate £m	19/20 Estimate £m
Total CFR	363.131	351.956	407.229	421.653	421.824	397.577

6. Actual External Debt:

6.1 This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/15	£m
Borrowing	116.613
Other Long-term Liabilities	58.964
Total	175.577

7. Incremental Impact of Capital Investment Decisions:

7.1 This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	15/16 Approved £	16/17 Estimate £	17/18 Estimate £	18/19 Estimate £	19/20 Estimate £m	20/21 Estimate £m
Increase in Band B Council Tax	22.08	25.65	59.06	62.04	54.63	42.36

7.2 The increase in Band B council tax reflects the increases in the provision for Capital Financing Charges of £2.547m by 2020/21 to undertake additional borrowing of £45.304m arising from the proposed capital programme.

8. Authorised Limit and Operational Boundary for External Debt:

8.1 The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.

8.2 The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately

identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

8.3 The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

8.4 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Authorised Limit for External Debt	15/16 Approved £m	15/16 Revised £m	16/17 Estimate £m	17/18 Estimate £m	18/19 Estimate £m	19/20 Estimate £m
Borrowing	327	327	330	340	340	310
Other Long-term Liabilities	63	63	62	61	60	59
Total	390	390	392	401	400	369

8.5 The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

8.6 The Assistant Director: Finance & Human Resources has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of the Audit Committee.

Operational Boundary for External Debt	15/16 Approved £m	15/16 Revised £m	16/17 Estimate £m	17/18 Estimate £m	18/19 Estimate £m	19/20 Estimate £m
Borrowing	309	309	310	320	320	290
Other Long-term Liabilities	61	61	60	60	59	58
Total	370	370	310	380	379	348

9. Adoption of the CIPFA Treasury Management Code:

9.1 This indicator demonstrates that the Council has adopted the principles of best practice.

Adoption of the CIPFA Code of Practice in Treasury Management
--

The Council approved the adoption of the CIPFA Treasury Management Code at its Council meeting on 4 March 2010.

The Council has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices.

10. Gross Debt and the Capital Finance Requirement

10.1 The purpose of this treasury indicator is to highlight a situation where the Council is planning to borrow in advance of need. If these figures exceed CFR (which they don't) they would indicate we are borrowing in advance of need.

Gross and Net Debt	15/16 Estimated £m	16/17 Authorised £m	17/18 Authorised £m	18/19 Authorised £m	19/20 Authorised £m
Outstanding Borrowing (at nominal value)	167.129	220.190	232.288	232.680	208.380
Other Long-term Liabilities (at nominal value)	57.813	58.260	56.408	54.167	51.848
Gross Debt	224.942	278.450	288.696	286.847	260.228

11. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure:

11.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. This Council calculates these limits on net principal outstanding sums, (i.e. fixed rate debt net of fixed rate investments / total debt net of total investments)

11.2 The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments

Guidance note on quantum of acceptable volatility...

	Existing level (or Benchmark level) at 31/03/15 %	15/16 Approved %	15/16 Revised %	16/17 Estimate %	17/18 Estimate %	18/19 Estimate %	19/20 Estimate %
Upper Limit for Fixed Interest Rate Exposure	100	100	100	100	100	100	100
Upper Limit for Variable Interest Rate Exposure	30	30	30	30	30	30	30
Local Indicator – Upper limit for net variable rate exposure. (Net principal re gross variable rate borrowing and investments divided by gross borrowing plus investments)	70	70	70	70	70	70	70

11.3 The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's treasury management strategy.

12. Maturity Structure of Fixed Rate borrowing:

12.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to

protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

12.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

Maturity structure of fixed rate borrowing	Existing level (level at 31/03/15) %	Lower Limit for 16/17 %	Upper Limit for 16/17 %
under 12 months	46 (25)	0	70
12 months and within 24 months	1 (1)	0	30
24 months and within 5 years	1 (3)	0	50
5 years and within 10 years	0 (0)	0	75
10 years and within years	0 (0)	0	75
years and within 30 years	0 (0)	0	75
30 years and within 40 years	9 (13)	0	100
40 years and within 50 years	11 (15)	10	100
50 years and above	31 (43)	15	100

13. Credit Risk:

13.1 The Council considers security, liquidity and yield, in that order, when making investment decisions.

13.2 Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk.

13.3 The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
- Sovereign support mechanisms;
- Credit default swaps (where quoted);
- Share prices (where available);
- Economic fundamentals, such as a country's net debt as a percentage of its GDP);
- Corporate developments, news, articles, markets sentiment and momentum;
- Subjective overlay.

13.4 The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

14. Upper Limit for total principal sums invested over 364 days:

14.1 The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

Upper Limit for total principal sums invested over 364 days	15/16 Approved %	15/16 Revised %	16/17 Estimate %	17/18 Estimate %	18/19 Estimate %	19/20 Estimate %
	95	95	95	95	95	95

Appendix D – Arlingclose Economic & Interest Rate Forecast December 2015

Underlying Assumptions:

- Underlying assumptions:
 - UK economic growth softened in Q3 2015 but remained reasonably robust; the first estimate for the quarter was 0.5% and year-on-year growth fell slightly to 2.3%. Negative construction output growth offset fairly strong services output, however survey estimates suggest upwards revisions to construction may be in the pipeline.
 - Household spending has been the main driver of GDP growth through 2014 and 2015 and remains key to growth. Consumption will continue to be supported by real wage and disposable income growth.
 - Annual average earnings growth was 3.0% (including bonuses) in the three months to August. Given low inflation, real earnings and income growth continue to run at relatively strong levels and could feed directly into unit labour costs and households' disposable income. Improving productivity growth should support pay growth in the medium term. The development of wage growth is one of the factors being closely monitored by the MPC.
 - Business investment indicators continue to signal strong growth. However the outlook for business investment may be tempered by the looming EU referendum, increasing uncertainties surrounding global growth and recent financial market shocks.
 - Inflation is currently very low and, with a further fall in commodity prices, will likely remain so over the next 12 months. The CPI rate is likely to rise towards the end of 2016.
 - China's growth has slowed and its economy is performing below expectations, which in turn will dampen activity in countries with which it has close economic ties; its slowdown and emerging market weakness will reduce demand for commodities. Other possible currency interventions following China's recent devaluation will keep sterling strong against many global currencies and depress imported inflation.
 - Strong US labour market data and other economic indicators suggest recent global turbulence has not knocked the American recovery off course. Although the timing of the first rise in official interest rates remains uncertain, a rate rise by the Federal Reserve seems significantly more likely in December given recent data and rhetoric by committee members.
 - Longer term rates will be tempered by international uncertainties and weaker global inflation pressure.

Forecast:

- Arlingclose forecasts the first rise in UK Bank Rate in Q3 2016. Further weakness in inflation, and the MPC's expectations for its path, suggest policy tightening will be pushed back into the second half of the year. Risks remain weighted to the downside. Arlingclose projects a slow rise in Bank Rate, the appropriate level of which will be lower than the previous norm and will be between 2 and 3%.

- The projection is for a shallow upward path for medium term gilt yields, with continuing concerns about the Eurozone, emerging markets and other geo-political events, weighing on risk appetite, while inflation expectations remain subdued.
- The uncertainties surrounding the timing of UK and US monetary policy tightening, and global growth weakness, are likely to prompt short term volatility in gilt yields.

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Official Bank Rate													
Upside risk		0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.75	1.75
Downside risk				-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-1.00	-1.00	-1.25	-1.25
3-month LIBID rate													
Upside risk	0.20	0.30	0.30	0.30	0.35	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	0.55	0.60	0.70	0.80	0.95	1.05	1.15	1.30	1.40	1.55	1.65	1.80	1.85
Downside risk		-0.20	-0.30	-0.45	-0.55	-0.65	-0.80	-0.90	-1.05	-1.10	-1.20	-1.20	-1.20
1-yr LIBID rate													
Upside risk	0.25	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.45	0.45	0.45	0.45	0.45
Arlingclose Central Case	1.10	1.20	1.35	1.45	1.55	1.70	1.80	1.95	2.00	2.10	2.15	2.15	2.15
Downside risk	-0.15	-0.25	-0.35	-0.50	-0.60	-0.70	-0.85	-0.95	-1.10	-1.15	-1.25	-1.25	-1.25
5-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	1.50	1.55	1.60	1.70	1.80	1.90	2.00	2.10	2.20	2.25	2.30	2.35	2.35
Downside risk	-0.35	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25
10-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	2.00	2.05	2.10	2.20	2.30	2.40	2.50	2.60	2.65	2.70	2.75	2.80	2.80
Downside risk	-0.35	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25
20-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	2.45	2.50	2.55	2.55	2.60	2.65	2.70	2.75	2.80	2.85	2.90	2.95	2.95
Downside risk	-0.30	-0.40	-0.50	-0.55	-0.65	-0.75	-0.85	-0.95	-1.05	-1.10	-1.15	-1.20	-1.20
50-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	2.45	2.50	2.55	2.60	2.65	2.70	2.75	2.80	2.85	2.90	2.95	3.00	3.00
Downside risk	-0.25	-0.35	-0.45	-0.50	-0.60	-0.70	-0.80	-0.90	-1.00	-1.05	-1.10	-1.15	-1.15

Appendix E – Recommended Sovereign and Counterparty List (Section 8)

- **Group Limits** - For institutions within a banking group, the authority executes a limit at the highest of any of the single banks within that group.
- **Sovereign Limit** – The Council will only invest a maximum of £15m of the portfolio with non UK sovereigns. This is a reduction of the limit from £20m and will only apply from 2016/17 onwards.

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limit %/£m	Maximum Group Limit (if applicable) %/£m	Council Holding At 31/12/15 £m
Term Deposits / CDs / Call Accounts	UK	Santander UK Plc (Banco Santander Group)	15	15	6.00
Term Deposits / CDs / Call Accounts	UK	Bank of Scotland (Lloyds Banking Group)	15	15	0
Term Deposits / CDs / Call Accounts	UK	Lloyds (Lloyds Banking Group)	15	15	10.74
Term Deposits / CDs / Call Accounts	UK	Barclays Bank Plc	15	15	0
Term Deposits / CDs / Call Accounts	UK	HSBC Bank Plc	15	15	2.75
Term Deposits / CDs / Call Accounts	UK	Nationwide Building Society	15	15	0
Term Deposits / CDs / Call Accounts	UK	NatWest (RBS Group)	15	15	0
Term Deposits / CDs / Call Accounts	UK	Royal Bank of Scotland (RBS Group)	15	15	0
Term Deposits / CDs / Call Accounts	UK	Standard Chartered Bank	15	15	0
Term Deposits / CDs / Call Accounts	UK	Close Brothers Limited	15	15	0
Term Deposits / CDs / Call Accounts	UK	Goldman Sachs International Bank	15	15	0
Term Deposits / CDs / Call Accounts	UK	Leeds Building Society	15	15	0
Term Deposits / CDs / Call Accounts	Australia	Australia and NZ Banking Group	15	15	0

Term Deposits / CDs / Call Accounts	Australia	Commonwealth Bank of Australia	15	15	0
Term Deposits / CDs / Call Accounts	Australia	National Australia Bank Ltd (National Australia Bank Group)	15	15	0
Term Deposits / CDs / Call Accounts	Australia	Westpac Banking Corp	15	15	0
Term Deposits / CDs / Call Accounts	Canada	Bank of Montreal	15	15	0
Term Deposits / CDs / Call Accounts	Canada	Bank of Nova Scotia	15	15	0
Term Deposits / CDs / Call Accounts	Canada	Canadian Imperial Bank of Commerce	15	15	0
Term Deposits / CDs / Call Accounts	Canada	Royal Bank of Canada	15	15	0
Term Deposits / CDs / Call Accounts	Canada	Toronto-Dominion Bank	15	15	0
Term Deposits / CDs / Call Accounts	Finland	Nordea Bank Finland	15	15	0
Term Deposits / CDs / Call Accounts	Finland	Pohjola Bank	15	15	0
Term Deposits / CDs / Call Accounts	Germany	Deutsche Bank AG	15	15	0
Term Deposits / CDs / Call Accounts	Germany	Landesbank Hessen – Thuringen (Helaba)	15	15	0
Term Deposits / CDs / Call Accounts	Netherlands	ING Bank NV	15	15	0
Term Deposits / CDs / Call Accounts	Netherlands	Rabobank	15	15	0
Term Deposits / CDs / Call Accounts	Netherlands	Bank Nederlandse Gemeenten	15	15	0
Term Deposits / CDs / Call Accounts	Singapore	DBS Bank Ltd	15	15	0
Term Deposits / CDs / Call Accounts	Singapore	Oversea-Chinese Banking Corporation (OCBC)	15	15	0
Term Deposits / CDs / Call Accounts	Singapore	United Overseas bank (UOB)	15	15	0

Term Deposits / CDs / Call Accounts	Sweden	Svenska Handelsbanken	15	15	9.12
Term Deposits / CDs / Call Accounts	Switzerland	Credit Suisse	15	15	0
Term Deposits / CDs / Call Accounts	US	JP Morgan Chase Bank	15	15	0

***Please note this list could change if, for example, a counterparty/country is upgraded, and meets our other creditworthiness tools. Alternatively, if a counterparty is downgraded, this list may be shortened. The counterparty list was correct as at 31 December 2015.*

SUMMARY OF INVESTMENTS**TOTAL RISK PER COUNTERPARTY AS AT 31 DECEMBER 2015**

	CREDIT RATING			TOTAL £000
<u>Fixed Deposits</u>				
HSBC	UK AAA	F1+ AA-	1	2,746
Svenska Handelsbanken	Sweden AAA	F1+ AA-	2	9,115
Lloyds	UK AAA	F1 A+	5	10,740
Santander	UK AAA	F1 A	2	6,000
TOTAL- FIXED TERM AND CASH DEPOSITS				28,601

<u>SUMMARY BY SOVEREIGN RATING</u>	<u>£000</u>	<u>%</u>
UK AAA	19,486	68
Sweden AAA	9,115	32
Total	28,601	100

Ethical Investment Framework – Telford and Wrekin Council

At the current time the Council's treasury activity consists principally of making short-dated loans to the UK Government (through the Debt Management Agency Deposit Facility) and to banks and building societies which adheres to the S-L-Y principles of (Security, Liquidity and Yield, in that order).

The preservation of capital is the Council's principal and overriding priority. The banks and building societies on the Council's lending list are selected only if the institutions and the sovereign meet a minimum credit criteria. In accordance with its social and corporate governance responsibilities, the Council seeks to support institutions which additionally have an ethical and responsible approach to environmental and social issues including employment and global trade. These "ethical" criteria and their basis are described below.

1. Environmental and Social Standards

Equator Principles

The Equator Principles are a voluntary set of guidelines based on the environmental and social standards practiced by the International Finance Committee when evaluating financing projects. Financial institutions that adopt the Principles agree to use a screening process aiming to ensure that environmental and social assessments help inform decisions to finance development projects. This allows signatories to engage proactively with their stakeholders on environmental and social policy issues.

The Equator Principles (EPs) are a screening framework for determining, assessing and managing environmental and social risk in project finance transactions for major infrastructure and industrial projects. The EPs are adopted voluntarily by financial institutions and are applied where total project capital costs exceed US\$10 million. The EPs are primarily intended to provide a minimum standard for due diligence to support responsible risk decision-making. They are based on the International Finance Corporation's performance standards on social and environmental sustainability and on the World Bank Group Environmental Health and Safety Guidelines.

Financial institutions which are signatories to the EPs commit to not providing loans to projects where the borrower will not or is unable to comply with their respective social and environmental policies and procedures that implement the EPs.

The following banks relating to institutions on the Council's lending list have adopted the Equator Principles :

- Barclays Bank
- HSBC Bank plc
- Lloyds Banking Group (parent of Bank of Scotland and Lloyds TSB Bank)
- Royal Bank of Scotland
- Standard Chartered
- Banco Santander (parent of Santander UK plc).

<http://www.equator-principles.com/index.php/members-reporting>

2. Human Rights, Labour and Environment

The **UN Global Compact** is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption.

Corporations which sign up to the UN Global Compact are encouraged to themselves embrace and in turn, support and enact, within their sphere of influence, a set of core values which are derived from:

- The Universal Declaration of Human Rights
- The International Labour Organization's Declaration on Fundamental Principles and Rights at Work
- The Rio Declaration on Environment and Development
- The United Nations Convention Against Corruption

Human Rights

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2: make sure that they are not complicit in human rights abuses.

Labour

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: the elimination of all forms of forced and compulsory labour;
- Principle 5: the effective abolition of child labour; and
- Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: undertake initiatives to promote greater environmental responsibility; and
- Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

The following banks relating to institutions on the Council's lending are participants/stakeholders of the UN Global Compact :

- HSBC
- Royal Bank of Scotland
- Standard Chartered
- Grupo Santander (ultimate parent of Santander UK plc).

<http://www.unglobalcompact.org/ParticipantsAndStakeholders/index.html>

Limitations to ethical policies :

It should be noted here that the individual institutions which have signed up to the Equator Principles and to the Global Compact screen borrowers before lending for infrastructure and industrial projects.

However, financial institutions also engage daily in money market and interbank lending transactions; the criteria for such lending is based primarily on credit risk assessment (i.e. the assessment of their lending being repaid in full and on time when it is due). Being a signatory to the EPs will not necessarily be a critical feature of such credit assessment and the Council is not in a position to monitor interbank lending. The same applies to an individual financial signing up to the UN Global Compact.

It should also be noted that becoming a signatory of voluntary guidelines (Equator Principle or Global Compact) does not guarantee that that institution's policies and practices are of a better standard than those institutions which are not signatories to the voluntary guidelines.

Activist investment : The Council does not invest directly in shares or in corporate bonds. Not only are such investments inherently higher risk investments, and requires a distinct and separate set of fund management expertise. Under current legislation (SI 2003 No 3146) the purchase of share capital or loan capital of a body corporate is a capital expenditure investment which, on sale or maturity, becomes a capital receipt and is unsuitable for the Council's treasury investments which are primarily the cash management of its operating surpluses and reserves. Corporate bond and equity investments would however be made by the Council's pension fund (run by Shropshire Council).

Other than through its pension fund (which is measured by Shropshire Council), the Council cannot seek to influence decision making at a company by voicing concerns, engaging in a dialogue with management, or lobbying other shareholders for support. Activist investors attempt to purchase sufficient shares or obtain seats on the board with the goal of effecting major change in the company to make the company more valuable financially or socially (for example to change management policies and adopt better governance; optimise shareholder value through acquisitions/divestitures, be more socially responsible etc).

Credit Ratings – A Guide.

Long-term credit ratings and Sovereign Ratings

Fitch Rating' long-term credit ratings are set up along a scale from 'AAA' to 'D', first introduced in 1924 and later adopted and licensed by Standard & Poors (S&P). Moody's also uses a similar scale, but names the categories differently. Like S&P, Fitch also uses intermediate modifiers for each category between AA and CCC (i.e., AA+, AA, AA-, A+, A, A-, BBB+, BBB, BBB- etc.).

Investment grade

- **AAA** : the best quality, reliable and stable
- **AA** : good quality, a bit higher risk than AAA
- **A** : economic situation can affect finance
- **BBB** : medium class counterparties, which are satisfactory at the moment

Non-investment grade

- **BB** : more prone to changes in the economy
- **B** : financial situation varies noticeably
- **CCC** : currently vulnerable and dependent on favourable economic conditions to meet its commitments
- **CC** : highly vulnerable, very speculative bonds
- **C** : highly vulnerable, perhaps in bankruptcy or in arrears but still continuing to pay out on obligations
- **D** : has defaulted on obligations and Fitch believes that it will generally default on most or all obligations
- **NR** : not publicly rated

Short-term credit ratings

Fitch's short-term ratings indicate the potential level of default within a 12-month period.

- **F1+** : best quality grade, indicating exceptionally strong capacity of obligor to meet its financial commitment
- **F1** : best quality grade, indicating strong capacity of obligor to meet its financial commitment
- **F2** : good quality grade with satisfactory capacity of obligor to meet its financial commitment
- **F3** : fair quality grade with adequate capacity of obligor to meet its financial commitment but near term adverse conditions could impact the obligor's commitments
- **B** : of speculative nature and obligor has minimal capacity to meet its commitment and vulnerability to short term adverse changes in financial and economic conditions
- **C** : possibility of default is high and the financial commitment of the obligor are dependent upon sustained, favourable business and economic conditions
- **D** : the obligor is in default as it has failed on its financial commitments.

Support Ratings (1 – 5)

The Purpose and Function of Support Ratings

Support Ratings are Fitch Ratings' assessment of a potential supporter's propensity to support a bank and of its ability to support it. Its propensity to support is a judgment made by Fitch Ratings. Its ability to support is set by the potential supporter's own Issuer Default Ratings, both in foreign currency and, where appropriate, in local currency. Support Ratings do not assess the intrinsic credit quality of a bank. Rather they communicate the agency's judgment on whether the bank would receive support should this become necessary. These ratings are exclusively the expression of Fitch Ratings' opinion even though the principles underlying them may have been discussed with the relevant supervisory authorities and/or owners.

Timeliness and Effectiveness Requirements

Fitch Ratings' Support Rating definitions are predicated on the assumption that any necessary "support" is provided on a timely basis. The definitions are also predicated on the assumption that any necessary support will be sufficiently sustained so that the bank being supported is able to continue meeting its financial commitments until the crisis is over.

Obligations and Financial Instruments Covered

In terms of these definitions, unless otherwise specified, "support" is deemed to be in terms of foreign currency. It is assumed that typically the following obligations will be supported: senior debt (secured and unsecured), including insured and uninsured deposits (retail, wholesale and interbank); obligations arising from derivatives transactions and from legally enforceable guarantees and indemnities, letters of credit, and acceptances; trade receivables and obligations arising from court judgments.

Likewise, the agency does not assume that the following capital instruments will be supported when sovereign support is involved: preference/preferred shares or stock; hybrid capital (tier 1 and upper tier 2), including reserve capital instruments (RCIs) and variations upon RCIs; and common/ordinary equity capital. It is also assumed that there will be no support for any moral obligation on securitizations. The sovereign support status of subordinated debt is difficult to categorize in advance; it is assessed on a case by case basis, distinguishing among different jurisdictions.

Definitions:

- 1: A bank for which there is an extremely high probability of external support. The potential provider of support is very highly rated in its own right and has a very high propensity to support the bank in question. This probability of support indicates a minimum Long-Term Rating floor of 'A-'.
- 2: A bank for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to provide support to the bank in question. This probability of support indicates a minimum Long-Term Rating floor of 'BBB-'.
- 3: A bank for which there is a moderate probability of support because of uncertainties about the ability or propensity of the potential provider of support to do so. This probability of support indicates a minimum Long-Term Rating floor of 'BB-'.
- 4: A bank for which there is a limited probability of support because of significant uncertainties about the ability or propensity of any possible provider of support to do so. This probability of support indicates a minimum Long-Term Rating floor of 'B'.

- 5:** A bank for which external support, although possible, cannot be relied upon. This may be due to a lack of propensity to provide support or to very weak financial ability to do so. This probability of support indicates a Long-Term Rating floor no higher than 'B-' and in many cases no floor at all.

GLOSSARY

Term	Meaning
Affordable Borrowing Limit	The amount the authority would normally borrow at any point of time in the year. This boundary might be exceeded temporarily but only in exceptional circumstances. The limit is set by Full Council at the beginning of March and is a prudential indicator.
Authorised Borrowing Limit	The maximum amount the authority can borrow at any point of time in the year. This limit should never be exceeded. The limit is set by Full Council at the beginning of March and is a prudential indicator.
Capital Financing Requirement (CFR)	This represents the underlying need for the authority to borrow and represents the assets of the authority less the long term capital liabilities.
Credit Default Swaps (CDS)	CDS are bought by investors to insure against defaults (i.e. the counterparty not being able to repay). The higher the cost/premium then the higher the risk – CDS therefore given a market view of the credit worthiness of an organisation.
Credit Ratings	Rating on the ability of an organisation to meet its obligations; ratings are assigned by independent, specialist companies, such as Fitch and Moodys using market intelligence they gather.
Credit Risk	The risk that the debtor will default on their obligations
Counterparty	The organisation that you are conducting your business with.
Debt Management Account Deposit Facility	Provided by the <u>Debt Management Office</u> , users can place cash in secure fixed-term deposits. Deposits are guaranteed by the government and therefore have the equivalent of a sovereign triple-A credit rating.
Derivative Instruments	A security whose price is dependent upon or derived from one or more underlying assets. The derivative itself is merely a contract between two or more parties. Its value is determined by fluctuations in the underlying asset. The most common underlying assets include stocks, bonds, commodities, currencies, interest rates and market indexes. Most derivatives are characterized by high leverage. For example, a stock option is a derivative because it derives its value from the value

	of a stock. An interest rate swap is a derivative because it derives its value from one or more interest rate indices.
Discounts	These relate to Public Works Loans Board loans. If rates have increased since the borrowing was undertaken then part of the benefit that PWLB will achieve from being able to loan out at that higher rate are passed back to an authority if they repay the loan early.
Fund Managers	Independent investment managers who work to a specific mandate and invest funds on behalf of the Council
Inflation	The rise in prices of goods and services over a period of time.
Interest Rate Risk	The risk that the value of an investment will change due to changes to the interest rate.
Internal Borrowing	This is where the amount of an authority's borrowing is less than its CFR or underlying need to borrow and represents the use of internal balances rather than borrowing from the market.
LIBID	London inter-bank bid rate. Interest rate at which prime banks will borrow money in the London inter-bank market.
LIBOR	London inter-bank offer rate. Interest rate at which prime banks will lend money in the London inter-bank market. Fixed every day by the British Bankers Association to five decimal places.
Liquidity Risk	The risk of not being able to trade an investment quickly to release cash.
Minimum Revenue Provision (MRP)	This is the amount charged against the Income and Expenditure Account for the year in relation to the repayment of debt on borrowing in order to fund capital expenditure.
Obligor	An individual or company that owes debt to another individual or company (the creditor), as a result of borrowing or issuing bonds.
Premia	This is the penalty applied to the early redemption of PWLB loans where rates have fallen since the loan was undertaken.
Prudential Code	A professional code of practice which provides regulatory framework to local authorities on capital expenditure, investments and borrowing activities.
Prudential Indicators	A set of indicators developed within the Prudential Code which define thresholds for investment and borrowing within a local authority.

PWLB	Public Works Loans Board – a Government agency providing long and short term loans to local authorities. Interest rates are generally lower than the private sector and slightly higher than the rates at which the Government themselves may borrow.
Re-scheduling	This relates to repaying existing borrowing early and replacing it with borrowing for a different period usually, but not necessarily, at lower rates
Return	The gain from holding an investment over a given period
Security	An investment instrument, other than an insurance policy or fixed annuity, issued by a corporation, government or other organisation which offers evidence of debt or equity.
Sovereign Exposure	Risk of exposure to one particular country.
Supranational Bonds	These are bonds (similar to gilts) issued by multi government development organisations and are supported by all of the governments who form part of the organisation. E.g. European Investment Bank and are usually very secure.
Quantative Easing	This is where the government buy back there own gilt issuance to effectively pump money into the financial markets of the economy.

TELFORD & WREKIN COUNCIL

AUDIT COMMITTEE 26th JANUARY 2016

2015/16 INTERNAL AUDIT QUARTERS 2 AND 3 UPDATE REPORT UPDATE OF THE INTERNAL AUDIT CHARTER FOR 2016/17 EXTERNAL ASSESSMENT IN RESPECT TO THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS

**REPORT OF THE INTERNAL AUDIT, INFORMATION GOVERNANCE & INSURANCE SERVICES
SERVICE DELIVERY MANAGER**

1 PURPOSE

- 1.1 To update members on the work of Internal Audit during quarters two and three – July to December 2015.
- 1.2 For members to approve the updated Internal Audit Charter for 2016/17
- 1.3 For members to agree the process for external assessment against the Public Sector Internal Audit Standards (PSIAS).

2 RECOMMENDATIONS

- 2.1 That members of the Audit Committee note the Internal Audit update information for quarters 2 and 3 2015/16.
- 2.2 That members approve the 2016/17 Internal Audit Charter attached as Appendix E.
- 2.3 That members agree the procurement route for an external assessment of Internal Audit against the PSIAS as set out in section 7 with final details to be agreed by the Internal Audit, Information Governance & Insurance SDM in consultation with the Chair of the Audit Committee and CFO.

3 SUMMARY

- 3.1 The terms of reference of the Audit Committee include:
“The approval (but not direction) of and monitoring of progress against, the Internal Audit Charter and Plan”. The Audit Committee receives regular updates on the work of Internal Audit. This report provides the updates for quarters two and three 2015/16 – July to December 2015 and an update of the Internal Audit Charter for 2016/17.
- 3.2 The Public Sector Internal Audit Standards effective from 1st April 2013 contain the requirement for an external assessment of the Internal Audit function once every 5 years. The Council needs to ensure one has been undertaken by 31st March 2018. As there is a restructure of Finance & Human Resources scheduled for 2017/18 and it is envisaged that there may be a high demand for external assessments during 2017/18 it seems prudent to undertake the process during 2016/17. This report sets out in section 7 the background and proposed options alongside their associated opportunities, risks and costs.

4 PREVIOUS MINUTES

- 4.1 Audit Committee 30th June 2014 – Internal Audit & Information Governance Annual Report 2013/14

Audit Committee 16th September 2014 – Internal Audit Quarter 1 Update 2014/15 and Public Sector Internal Audit Standards

Audit Committee 27th January 2015 – Internal Audit Quarters 2 and 3 Update 2014/15

Audit Committee 30th June 2015 – Internal Audit & Information Governance Annual Report 2014/15 and Internal Audit Quarter 4 Update

5 QUARTERS 2 and 3 INTERNAL AUDIT UPDATE INFORMATION

- 5.1 This report provides information on the work of Internal Audit from 1st July – 31st December 2015 and provides an update on the progress of previous audit reports issued (January 2013 to June 2015).
- 5.2 The key focus for the team during the first part of quarter two was the completion of audits commenced in quarter one. Following this for the rest of quarter two and all of quarter three we have completed audit work as set out in the 2015/16 plan. We have commenced all the fundamental systems audits and in some cases completed them as required by the external auditor to support their final accounts audit work. In July we also agreed the IT audit supplier for 2015/16 from the framework agreement following receipt and evaluation of quotes. Work commenced in September 2015 and should be completed by end February 2016.
- 5.3 The following internal audit update report appendices are attached:
- i) **Appendix A** – List of final reports issued in quarters two and three with our grading – red, amber, yellow or green. This report also includes budgeted time, actual time and percentage variance.
 - ii) **Appendix B** – List of all work undertaken for quarters two and three for a period of 1 day or more.
 - iii) **Appendix C** - Previous graded reports from January 2013 to June 2015 with their current status. (Members should note that once reports have reached a green status and have been reported to members they are excluded from future reports).
 - iv) **Appendix D** – Summary of the 9 amber reports issued in quarters two and three. Note in addition to these 9 amber reports the cash collection report was separated into corporate and 4 service area opinions. The service area opinion for cash collection – highways and transport was graded Amber.
- 5.4 Appendix A shows 27 reports were issued in quarters two and three, including the Cash collection report which was comprised of the 5 opinions as set out above 5.3 (iv). For the final reports issued the time taken for the areas shown in the table below varied from the allocated time by more than +/- 10%.

Area	Variance (> +/- 10%)	Reason
St Georges School	+14%	Head requested additional draft discussion meeting and new programme for lead Auditor
ASC prototype	-84%	Limited information available so agreed that a full audit to take place in 2016/17.
Treasury Management	+16%	Scope and working papers reviewed so new areas included.
Setting up home (leaving care grant)	-62%	Processes not in place so limited testing could be undertaken.
ASS Financial Assessment Review	+22%	Complex area and additional testing added during the audit. Training for new auditor.
Transport (Adults)	+150%	New area so working papers had to be developed. Due to service set up no one focal point/contact that took responsibility for audit area so some duplication and therefore wasted time.

Area	Variance (> +/- 10%)	Reason
Leaving care – review of process	+14%	New area so working papers had to be developed. Auditees had to be chased and therefore added to time as had to be reminded of requirements.
Windmill Primary School	+11%	New programme for Lead Auditor.
Wrockwardine Wood Junior School	+22%	Head leaving so extra time spent providing advice on handover requirements.
Horsehay Golf Centre	+31%	Although the leisure audit programme was used scope was larger due to café and review of the golf professional.
Cash Collection	+14%	Corporate and 4 service areas reviewed therefore testing more extensive than planned.
Facilities Management Help Desk	+36%	New auditor so additional support required in addition to testing required in two service areas.
Car Parking & Enforcement (excluding Multi Storey Car park)	+106%	Reviewed 4 car parks rather than just the one originally envisaged.
Adult Social Care Payments	+37%	Extensive testing due to complex payment processes and restructures in other services affected interfaces and required additional testing. Parts of the Abacus system also included.
Donnington Wood Junior	+14%	Additional preparation and review time required.
St Matthews CE School	+54%	New Head and new Schools Business Manager resulted in additional testing, provision of training, guidance and improvement advice.
Council Tax/NNDR	+17%	Increased sample sizes required by KPMG following last year's audits. One auditor new to this area's IT systems.
Multi-Storey Car park	+121%	This was identified as a risk area due to cash collection issues following implementation but time allocation severely underestimated as were still other issues and several areas of the Council involved.
Grange Park primary School	+11%	Unable to reconcile income and additional discussions undertaken re report grading.

The reasons for the variances are as explained above. As a result of this information the team will where appropriate review scopes, work practices and time estimates for future 2015/16 and 2016/17 audits and these will continue to be closely monitored.

5.5 From Appendix A there were nine Amber reports issued during quarters two and three (plus the one part of the opinion for Cash Collection). A summary of the nine is provided in Appendix D. For these Amber reports management actions and time scales have been agreed to implement the recommendations and follow ups are scheduled. Internal Audit is confident that management will implement the recommendations to provide appropriate assurance and improved controls.

5.6 Areas of more than 10 days from Appendix B are explained below:

Audit Area	Days	Explanation
Advice & Consultancy	57	Continued advice and guidance sought due to more commercial approach and staff new to roles and responsibilities due to restructures
Cash collection	23	Fundamental Audit
Council Tax & NNDR	42	Fundamental Audit
Facilities Management Help Desk Review	12	Two areas to test and new auditor training
Housing benefit & Council Tax Support Scheme	16	Housing Benefit fundamental Audit defined by External Audit but Council Tax support scheme continues to be a key Council system
Multi Storey Car Park	11	Cash collection issues identified following implementation but time allocation underestimated as there were additional issues identified and several areas of the Council involved.
Newdale Primary School	12	Testing took longer than normal.
Purchase Ledger	29	Fundamental Audit
Payroll/Human Resources	43	Fundamental Audit and additional testing to ensure External Audit requirements have been met
Sales Ledger	31	Fundamental Audit
St Matthews Primary School	12	Testing took longer than normal.
The Place	16	Many queries on income especially in respect to the bar
Town Park	12	Follow up of previous system failures in addition to standard audit
Transport to Schools – pre and post 16	13	New audit area and due to blurred position in respect to roles additional testing and clarification sought.

5.7 From Appendix C the position on reports which remain amber are as shown in the table below:

No	Area Audited	Original grade	Revised grade	Current position/comments
1.	Abacus system & concerns	Red/ Amber	Amber/ Yellow	Update agreed to January 2016 meeting
2.	Moorfield Primary School	Red	Amber	Original second follow up re-arranged for Autumn term due to absence of Schools Business Manager. Still in progress as further evidence has been requested.
3.	Direct Payments	Amber		Responses to follow up delayed due to the implementation of the Adult Social Services restructure and external review of the Direct Payment processes.
4.	Charlton School	Amber		Follow up information returned by school and further evidence required alongside a visit in January 2016.
5.	Section 17 Payments	Amber	Amber	Follow up completed and remains Amber. Next follow up due April 2016.

5.8 All other areas reported on in this update report but not highlighted to members are either improving or the follow ups are in progress or planned. Internal Audit is confident and has been assured by management that controls have and will continue to improve in all areas where recommendations have been made. There are no other issues to bring to the attention of the Committee at this time.

6 INTERNAL AUDIT CHARTER 2016/17

- 6.1 The Public Sector Internal Audit Standards require Internal Audit to have a Charter which sets out the purpose, resources, reporting and other information important to provision of a service that meets the definition of Internal Audit.
- 6.2 The 2015/16 Charter has been reviewed and updated for 2016/17 to reflect the following:
- a) The Internal Professional Practices Framework – the 10 core principles for the Professional Practice of Internal Auditing;
 - b) The resources available for 2016/17;
 - c) The revised title of the Service Delivery Manager to Internal Audit, Information Governance and Insurance Services as she took over responsibility for Insurance on 17th November 2015 (although the current retender is being completed by Finance colleagues); and
 - d) Other minor changes to reflect the changing organisation.

7 EXTERNAL ASSESSMENT OF INTERNAL AUDIT AGAINST THE PUBLIC SECTOR INTERNAL AUDITING STANDARDS (PSIAS)

- 7.1 The PSIAS in Standard 1310 sets out the requirement for a Quality Review and Improvement Programme (QAIP) which includes both internal and external assessments of the Internal Audit activity.
- 7.2 Standard 1311 states that these assessments should comprise two interrelated parts; on-going monitoring and periodic self-assessment. On-going monitoring covers day to day operational issues such as file reviews etc. Periodic self-assessment looks at compliance against the standards as a whole and this work is required to be completed by the Chief Audit Executive, or senior audit member with the appropriate/relevant experience.
- 7.3 Standard 1312 states that an external assessment must be conducted at least once every five years. Therefore all Councils will need to have completed an external review prior to the 31 March 2018. Given the likelihood that demand for reviews in the financial year 2017/18 is going to be high and the scheduled restructure within Finance & Human Resources during this period it is prudent to have the external review completed during 2016/17.
- 7.4 In terms of the external assessment this must be completed by someone independent to the organisation and be qualified in the practice of internal auditing. Independence for these reviews is critical to give the assurance of an objective external assessment.
- 7.5 An external peer review could provide a cost effective approach particularly for small audit teams however the independence criteria must be met. Guidance from the standards considers an assessor to be independent so long as they do not report to the Audit Manager of the organisation under assessment.
- 7.6 Staffordshire Chief Auditors Group (SCAG - made up of Staffordshire County Council and the shire districts plus High Peak BC and Staffordshire Fire & Rescue) led by Newcastle BC have undertaken work during 2015 in order to conform to the Standards but keep time and costs down for respective authorities. They have also invited Shropshire Council and Telford & Wrekin to join their arrangements – subject to Audit Committee approval.
- 7.7 SCAG has considered a number of options with regards to the requirements of the external assessment see summary in the table below:

Option	Comments – Pros and Cons	Estimated costs**
1. Peer review	<p>This would involve the authorities taking part undertaking a review of another authority.</p> <p>Considerations:</p> <p>(a) Due to the different management arrangements for the audit teams across Staffordshire plus Shropshire and Telford & Wrekin there is a danger that if the reviews were to be undertaken by ourselves there would be inconsistencies.</p> <p>(b) Also as Midlands authorities (including then ones involved in this arrangement) regularly support each other in the development of documents/processes via networking events there is a risk that peer review would not be objective enough.</p> <p>(c) To undertake the reviews ourselves would have a significant impact on our own internal resources. This would include specification, completion of our own individual authority's self-assessment and collating the necessary documentary evidence, which in itself is a considerable task but then we would be required to spend at least 3 days undertaking an assessment at another authority plus additional days for feedback, compiling a report and presentation to the Audit Committee.</p> <p>(d) There is also a strong view by those involved in this arrangement that to undertake the reviews ourselves would not give a true independent assessment as required by the Standards.</p>	Minimum 6 days' time of Audit, IG & Insurance Services SDM
2. Collaborative procurement of an external self-assessment	<p>A collaborative procurement approach to the external assessment by appointing an external independent body/person to undertake the assessment for all the authorities.</p> <p>Benefits:</p> <p>(a) This option provides a true independent assessment.</p> <p>(b) Good practice ideas from other organisations that they have reviewed.</p> <p>(c) Economies of scale will be achieved by this collaborative procurement approach.</p> <p>(d) Limited authority time during the assessment – just time for feedback, review of the report and response to Audit Committee.</p> <p>A number of providers have been approached to ascertain an indicative cost of this type of assessment being undertaken (separate to the collaboration). A detailed specification is being drawn up by the lead authority from SCAG with comments from participating Councils.</p>	Market testing estimates from £1,500 to £7,500 for 3 day assessment per authority. Minimal additional T&W time as lead authority undertaking the spec and procurement work (in consultation with member authorities).
Hybrid – Procure an external independent assessor & combine with a Peer review	An additional approach provided by one supplier during market testing was for an external assessor to be brought in at the beginning of the process to train member authorities to be able to undertake a peer review to ensure a consistency in the approach undertaken. The assessments are completed by member authorities and	Share of £7,500 - £10,000 (at £2,500 per day) plus estimated 8 days (up to 2 days training &

	<p>then the results are then reviewed by the external assessor to ensure that the approaches undertaken have been consistent and fair.</p> <p>This approach should eliminate the issue of a potential inconsistent approach but would impact on the resources of members in respect to training and then undertaking reviews.</p>	<p>minimum 6 days as per Peer review option above).</p>
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** - excluding time required for the self-assessment which is required by all options.

7.8 Recommended Option – Collaborative procurement of an External Self-Assessment:

The approach preferred by SCAG (and endorsed by their Finance Officers) which T&W has been invited to be part of is to undertake a collaborative approach by procuring an independent external assessor to undertake all the reviews for the Staffordshire authorities plus Shropshire & T&W Council. The benefits of this for T&W are minimal procurement time, that the approach would be consistent, demonstrate a true independent assessment, and enable best practice to be shared. The procurement process will demonstrate value for money and assessment costs would be met from within existing budget

8 OTHER CONSIDERATIONS

AREA	COMMENTS
Equal Opportunities	<p>All members of the Internal Audit, IG and Insurance Services Team have attended equal opportunities/ diversity training. If any such issues arose during any work the appropriate manager would be notified.</p> <p>The procurement for the External Assessment will follow proper practices in respect to procurement and equalities.</p>
Environmental Impact	<p>All members of the Internal Audit, IG and Insurance Services Team are environmentally aware and if any issues were identified they would be notified to the appropriate manager.</p> <p>The procurement process will ensure appropriate sustainability.</p>
Legal Implications	<p>The Accounts and Audit Regulations 2015 (Part 2, paragraph 5) state that the Council must 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. The information set out in this report illustrates the work that has been undertaken to meet the appropriate statutory requirements.</p> <p>There is also a requirement to comply with the Public Sector Internal Audit Standards. Undertaking the audits as set out in the report and providing updates to this Committee contributes towards meeting these requirements.</p> <p>In the event that an audit reveals an issue which requires a recommendation concerning a legal matter this can also be referred to the Council's Legal Services Team for further advice and assistance.</p> <p>Regarding the external assessment, whilst we are not the lead authority for the procurement, officers will take advice from the Council's Corporate Procurement Team in relation to our contribution to the procurement process where required.</p>
Links with Corporate Priorities	<p>All aspects of the Internal Audit, IG and Insurance Services teams work support good governance which underpins the achievement of the Council's objectives and priorities.</p> <p>An effective Internal Audit service will contribute to all corporate priorities and look to identify efficiencies and improvements in effectiveness.</p>

Risks and Opportunities	All aspects of the Internal Audit, IG and Insurance Services teams work supports managers and the Council to identify and manage their risks and opportunities.
Financial Implications	Financial monitoring is currently showing that Internal Audit, IG and Insurance Services are operating within budget for 2015/16. Team members will identify cost implications arising from reviews wherever possible. The costs of the external assessment will be met from within existing resources in 2016/17 plus setting aside some of the additional income generated during 2015/16.
Ward Implications	The work of the Internal Audit, IG and Insurance Services team encompasses all the Council's activities across the Borough and therefore it operates within all Council Wards.

9 BACKGROUND PAPERS

Annual Audit Plan 2015/16 and Charter

Public Sector Internal Audit Standards – Applying the IIA International Standards to the UK Public Sector 2013

CIPFA Local Government Application Note – April 2013

Internal Professional Practices Framework

Accounts and Audit Regulations – 2015

Report by Jenny Marriott, Internal Audit, Information Governance & Insurance Services Manager.
Telephone: 383101

FINAL REPORTS ISSUED QUARTERS TWO and THREE – JULY TO DECEMBER 2015

Audit Area	Opinion	Follow Up Due	Days allocated	Days Taken	Variance %
St Georges School	Green	N/A	9	10.3	+14%
Scott / Linden Centre	Yellow	January 2016	9.25	8.52	-8%
ASC Prototype Review	N/A	When fully implemented 2016/17	8	1.3	- 84%
Treasury Management	Green	2016/17 audit	10	11.6	+16%
Setting Up home Grant (Leaving Care)	Amber	November 2015	8	3	-62%
Financial Assessment review	Amber	January 2016	12	14.6	+22%
Transport (adults)	Amber	January 2016	8	12.5	+56%
CH2M Halcrow	Amber	December 2015	1	2.5	+150%
Leaving care – review of process	Amber	Jan 2016	10	11.4	+14%
Procurement	Yellow	January – March 2016	20	30.25	+8%
GPC expenditure	Yellow	March 2016	8		
Windmill Primary School	Yellow	March 2016	7.75	8.6	+11%
Wrockwardine Wood Junior	Yellow	March 2016	7.75	9.5	+22%
Horsehay	Yellow	April 2016	7	9.2	+31%
Cash Collection – Corporate Finance – Income Management	Yellow	2016-17 Audit	20	22.86	+14%
Cash Collection – Registrars	Yellow	2016-17 Audit			
Cash Collection – Transport & Highways Development	Amber	2016-17 Audit			
Cash Collection – Development, Business & Employment	Green	2016-17 Audit			
Cash Collection – Neighbourhood Services Business Development	Green	2016-17 Audit			

Facilities Management help Desk review	Yellow	April 2016	10	13.60	+36%
Car Parking & Enforcement (Excluding Multi-Storey)	Yellow	June 2016	5	10.3	+106%
Adult Social Care Payments	Yellow	April 2016	18	24.6	+37%
Donnington Wood Junior School	Yellow	May 2016	7.75	8.86	+14%
St Matthews C E School	Amber	Feb 2016	7.75	11.92	+54%
Council Tax & NNDR	Yellow	2016-17 Audit	38	44.58	+17%
Multi Storey Car park - Southwater	Amber	March 2016	5	11.04	+121%
Grange Park Primary School	Amber	Feb 2016	8.25	9.45	+11%
Downing House	Amber	March 2016	7	7.3	+4%
Waste Quality Performance Monitoring	Yellow	June 2016	5.75	7.92	+38%
Newport Junior School	Yellow	June 2016	7.75	6.1	-21%
Sales Ledger	Yellow	2016-17 Audit	20.45	27.76	+36%

**AUDIT WORK UNDERTAKEN FOR QUARTERS TWO AND THREE FOR A PERIOD OF 1 DAY
OR MORE**

Audit Area	Days
Adult Safeguarding Follow Up	2
Adult Social Care Payments	7
Adult Social Care Project	2
Advice & Consultancy	57
Bank Project Team	1
Holy Trinity School (BRJ) Follow Up	1
Care & Enablement provider services	1
Cash Collection	23
Charlton - Directed Salaried Grant 2015-16	1
Children's Brokerage	1
Council Tax & NNDR	42
Discharge to Care - Mental Health Home from Hospital	1
Donnington Wood Junior School	9
Downing House Clients Records & Finances	7
External IT Audit, Contract Management & Procurement	6
Facilities Management - Help Desk Review	12
Financial Assessment Process Review	4
Follow ups	6
Fraud Risk Tool/Register	2
General Ledger	4
Grange Park	9
Halcrow Contract	1
Haughton School	8
Horsehay Golf Course	9
Housing Benefits & CTAX Support Scheme	16
Bridge House Complaint	5
Leaving Care Process	3
Local transport grant	2
Customer Referral	1
Moorfield Follow Up	3
Mount Gilbert Follow Up	1
Multi storey car park	11
National Fraud Initiative	4
Newdale Primary	12
Newport Junior School	6
Oakengates Children's centre Follow Up	2
Other Car Park Contracts	10
P2P - Purchase Ledger	29
Payment of Employee Allowances	4
Payroll / HR	43
PCI Compliance (debit and credit card standards)	2
Pot Hole Grant	4
Procurement including GPC	7
Property Investment Portfolio (Review of bad debts)	1
Sales Ledger	31

Section 17 payments	2
St Georges Primary School	1
St Matthews Primary School	12
The Place	16
Town Park	12
Transport Processes Review - Adults	4
Transport to Schools - pre & post 16	13
Treasury Management	1
Troubled Families Grant	1
Waste Quality Performance Monitoring	8
Windmill Primary School	7
Woodlands Primary	6
Wrockwardine Wood Junior School	2

STATUS ON FINAL REPORTS ISSUED JANUARY 2013 TO JUNE 2015

APPENDIX C

Audit	Original Opinion	Updated Opinion	Previous Comments	Status as at 31.12.15
Abacus system & Abacus concerns	Amber Red	Amber/ yellow	Regular updates to Audit Committee with last one September 2015.	Next update to January 2016 meeting
Moorfield Primary School	Red	Amber	Further follow up undertaken November 2015	Follow up visit undertaken 5 th November 2015 but further evidence requested from the school and not yet provided. Will provide an update to the next Audit Committee.
Town Park review*	N/A requeste d review	n/a	Follow up commenced May 2015 and progressing well.	2nd follow up due October 2015 but incorporated into a full audit of the area currently being finalised. Will report to next Audit Committee.
Telford Ice Rink	Amber	Green	Follow up completed January 2015	Follow up completed and moved to Green
Direct payments	Amber		Follow up due May 2015	Information received from all areas but further information required so will be reported to the next Audit Committee.
Muxton Primary School	Yellow	Green	Follow up due June 2015	Follow up completed and moved to Green
Randlay Primary School	Yellow	Green	Follow up due June 2015	Follow up completed and moved to Green
Holy Trinity Academy (formerly Blessed Robert Johnson RC College)	Red	Yellow	Follow up visit June 2015 and second follow up November 2015.	Continuing to progress well and further follow up review agreed to be undertaken at the end of January 2016. The results of this will be reported to the next Committee.
Redhill Primary	Yellow	Green	Follow up commenced June 2015	Follow up completed and moved to Green
Mount Gilbert Primary School	Red	Green	2 nd follow up completed June 2015 moved to Yellow	3rd Follow up completed December 2015 and moved to Green.
Housing Benefits & Local Council Tax Support Scheme	Yellow	n/a	As part of annual audit	2015-16 audit in progress, previous recommendations to be followed up as part of this year's audit.
Public Health Standards Compliance	Yellow	Green	August 2015	Follow up completed and moved to green

STATUS ON FINAL REPORTS ISSUED JANUARY 2013 TO JUNE 2015

APPENDIX C

Audit	Original Opinion	Updated Opinion	Previous Comments	Status as at 31.12.15
Main Accounting General Ledger	Yellow	n/a	As part of annual audit	2015-16 audit in progress, previous recommendations to be followed up as part of this year's audit.
Vacant units	Yellow	Green	Follow up due September 15	Follow up completed and moved to Green.
Haughmond Hill Catering	Amber	Yellow	1 st follow up undertaken June 2015 and moved to Yellow.	2nd follow up commenced November 2015 and results will be reported to next Audit Committee.
Ice Rink Catering	Amber	Green	Follow up due June 2015	Follow up completed and moved to Green
Ercall Wood Technology College	Yellow	Green	Follow up moved from September to November 2015	Follow up completed and moved to Green
HR/Payroll	Yellow	n/a	As part of 2015-16 audit	2015-16 audit in progress, previous recommendations to be followed up as part of this year's audit
Digitisation report	Yellow		Follow up due September 2015	Implementation of all 2014/15 ICT recommendations being followed up together with ICT SDM. All audits still currently yellow as implementation in some areas is still in progress. A further update will be provided to the next Audit Committee.
ICT Change /Release Management including upgrade of SharePoint 2013	Yellow		Follow up due October 2015	Implementation of all 2014/15 ICT recommendations being followed up together with ICT SDM. All audits still currently yellow as implementation in some areas is still in progress. A further update will be provided to the next Audit Committee.
Free School Meals ICT system	Yellow		Follow up due October 2015	Implementation of all 2014/15 ICT recommendations being followed up together with ICT SDM. All audits still currently yellow as implementation in some areas is still in progress. A further update will be provided to the next Audit Committee.

STATUS ON FINAL REPORTS ISSUED JANUARY 2013 TO JUNE 2015

APPENDIX C

Audit	Original Opinion	Updated Opinion	Previous Comments	Status as at 31.12.15
Recruitment	Yellow		Follow up due November 2015	Follow up in progress and results will be reported to the next Audit Committee.
Flood debrief lessons learned	N/a		Follow up due November 2015	Follow up in progress and results will be reported to the next Audit Committee.
Charlton School	Amber		Follow up due September 2015	Follow up commenced September and information returned from the School but further evidence required including a visit to school planned for January 2016. A further update will be provided to the next Audit Committee.
Section 17	Amber	Amber	Follow up due November 2015	Follow up completed and remains Amber. Next follow up due April 2016.
ICT Strategy	Yellow		Follow up due September 2015	Implementation of all 2014/15 ICT recommendations being followed up together with ICT SDM. All audits still currently yellow as implementation in some areas is still in progress. A further update will be provided to the next Audit Committee.
ICT Incident and Capacity Management	Yellow		Follow up due September 2015	Implementation of all 2014/15 ICT recommendations being followed up together with ICT SDM. All audits still currently yellow as implementation in some areas is still in progress. A further update will be provided to the next Audit Committee.
Newport Pool	Yellow	Green	Follow up due December 2015	Follow up completed and moved to Green.
Information Governance Review	Yellow	Green	Follow up due December 2015	Follow up undertaken and moved to Green.

AMBER REPORTS ISSUED QUARTERS TWO AND THREE 2015/16

CHILDREN'S SOCIAL SERVICES - SETTING UP HOME GRANT

1. Introduction and Scope

- 1.1 An audit review was commenced on 15 June 2015, to provide an opinion on the control environment and a level of assurance for The Setting up Home Grant (Previously leaving care grant). The scope of the audit was agreed by the Team Leader Children in Care.
- 1.2 We would like to thank the following for their help during the audit :
- Service Support Officer
 - Team Leader – Children in Care
 - Support Officer – Finance
 - Senior Finance Officer

2. Management Summary and Overall Opinion

- 2.1 On the basis of the work carried out, our opinion based on the level of assurance provided by the controls for this audit area is **Limited** - *Whilst there is basically a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key controls.*
- 2.2 Recommendations have been made and agreed by management to strengthen the controls found to require improvement.
- 2.3 The implementation of the recommendations made in this report will further strengthen the controls and processes for Setting up Home Grant for Young people.
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CHILDREN'S SOCIAL SERVICES – LEAVING CARE PROCESS

1. Introduction and Scope

- 1.1 An audit review was undertaken during May and June 2015, to provide an opinion on the control environment and a level of assurance for the processes followed by the leaving care team. The scope of the audit was agreed by the Team Leader Children in Care.
- 1.2 We would like to thank the following for their help during the audit:
- ✪ Team Leader Children In Care
 - ✪ Service Support Officer
 - ✪ Senior Research & Intelligence Officer
 - ✪ Senior Finance Officer
 - ✪ The Personal Advisors & Social Workers who helped with the Protocol reviews
 - ✪ Research & Intelligence Officer

2. Good Practice Areas

- 2.1 During the audit a couple of good practice areas within the process for Leaving Care Team were identified. These included:

- ✪ The adoption of the DoE Care Leavers Charter
- ✪ Use of Tri.ax for documenting Assessment and Pathway Planning procedure.

3. Management Summary and Overall Opinion

- 3.1 On the basis of the work carried out, our opinion based on the level of assurance provided by the controls for this audit area is **Limited** - whilst there is basically a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key controls.
- 3.2 Recommendations have been made and agreed by management to strengthen the controls found to require improvement.
- 3.3 The implementation of the recommendations made in this report will further strengthen the controls and processes for leaving care.

ADULTS SOCIAL SERVICES – REVIEW OF THE FINANCIAL CASE MANAGEMENT PROCESS

1. Introduction and Scope

- 1.1 An audit review was commenced on 1/6/15, to provide an opinion on the control environment and a level of assurance for the Financial Case Management (FCM) Processes. The scope of the audit was agreed by the FCM Team Leader.
- 1.2 We would like to thank the following for their help during the audit:
 - Financial Case Management Team Leader
 - Financial Case Management Assessment Officer
 - Financial Case Management Apprentice
 - Finance Assistants
 - Financial Case Management Officers
 - Senior Financial Case Management Officer
 - Senior Accountant

2. Good Practice Areas

- 2.1 During the audit a couple of good practice areas within the process for financial case management were identified. These included:
 - ✪ Supervisions are carried out to monitor outstanding caseloads for each officer.
 - ✪ Exception reports relating to payment runs are actioned.

3. Management Summary and Overall Opinion

- 3.1 On the basis of the work carried out, our opinion based on the level of assurance provided by the controls for this audit area is **Limited** - *whilst there is basically a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key controls.*
- 3.2 Recommendations have been made and agreed by management to strengthen the controls found to require improvement.

- 3.2 The implementation of the recommendations made in this report will further strengthen the controls and processes within Financial Case Management.
-

ADULTS SOCIAL SERVICES – TRANSPORT OPERATIONS

1. Introduction and Scope

- 1.1 An audit review commenced on 9 June 2015, to provide an opinion on the control environment and a level of assurance for Transport operations (Adults). The scope of the audit was agreed by the Service Delivery Manager Commissioning (Vulnerable People).
- 1.2 We would like to thank the following for their help during the audit :
- Transport Contract Officer
 - Transport Manager (Fleet)
 - Accountant
 - Senior Finance Officer
 - Business Admin Apprentice
 - Personal Budget Advisor

2. Management Summary and Overall Opinion

- 2.1 Following service area responses to the issue of the initial draft report, further examination of records was undertaken which highlighted additional issues. Therefore on the basis of the revised findings, our opinion based on the level of assurance provided by the controls for this audit area is now Limited - whilst there is basically a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key controls.
- 2.2 Having reviewed the process for adult services transport arrangements, consideration should be given to reviewing the roles and responsibilities undertaken by both Transport and Fleet Services to establish if a more joined up approach could be identified. This could lead to potential efficiencies and budget savings.
- 2.3 Recommendations have been made and agreed by management to strengthen the controls found to require improvement. As part of the audit process we also identified some minor items that did not require recorded recommendations but were discussed at the draft discussion meeting.
- 2.4 The implementation of the recommendations made in this report will further strengthen the controls and processes in the Transport operations (Adults) area.
-

HIGHWAYS AND TRANSPORT DEVELOPMENT

1. Introduction and Scope

- 1.1 An audit review was commenced February 2015, to provide an opinion on the control environment and a level of assurance for The CH2M Contract. The scope of the audit was agreed by the SDM: Highways & Transport Development.
- 1.2 We would like to thank the following for their help during the audit:

2. Management Summary and Overall Opinion

- 2.1 On the basis of the work carried out, our opinion based on the level of assurance provided by the controls for this audit area is **Limited** - whilst there is basically a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key controls.
- 2.2 Recommendations have been made and agreed by management to strengthen the controls found to require improvement and their implementation will further strengthen the controls and processes in this contract.

ST MATTHEWS CE PRIMARY SCHOOL

1. Introduction and Scope

- 1.1 An audit review commenced on 14th September 2015, to provide an opinion on the control environment and a level of assurance for St Matthews CE Primary School. We would like to thank the following for their help during the audit:

Headteacher
School Business Manager
Senior Administrator
Clerical Assistant

2. Good Practice Areas

- 2.1 During the audit a number of good practice areas within St Matthews CE Primary School processes were identified. These included:
- ⌘ Head teachers reports to Governors are very comprehensive.
 - ⌘ Authorisation and recording of additional hours.
 - ⌘ Operation of the School Fund account.
 - ⌘ Fire alarm testing and evacuation records.
 - ⌘ Arrangements for the administration of medicines.

3. Management Summary and Overall Opinion

- 3.1 On the basis of the work carried out, our opinion based on the level of assurance provided by the controls for St Matthews C E Primary School is **Limited** - whilst there is basically a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key controls.
- 3.2 Recommendations have been made to strengthen the controls found to require improvement and these are set out with risk ratings and categories alongside your agreed actions. We have included a risk rating - High, Medium, and Low- for each recommendation to assist you in the prioritisation of their implementation.

Recommendation Risk Rating	Number	Percentage
High		
Medium	14	63.59%
Low	8	37.41%
Total	22	100%

3.3 As part of the audit process we also identified some minor items that did not require recorded recommendations but were discussed at the closure/draft discussion meeting with the Headteacher and School Business Manager. These are listed in Appendix B.

3.4 As part of this audit we have also followed up the implementation of recommendations made in the previous audit. The table below shows the action taken since that audit:

Recommendation Category		Implemented	Not Implemented	No Longer Applicable	Re-iterated
Legal requirement	0				
Financial Regulation	1	1			
Policy/Procedure	4	1		1	2
Best Practice					
TOTAL	5	2	0	1	2

3.5 The implementation of the recommendations made in this report and those outstanding from the previous review will further strengthen the controls and processes at St Matthews.

SOUTHWATER MULTI STOREY CARPARK

1. Introduction and Scope

1.1 An audit review was commenced 10th September 2015, to provide an opinion on the control environment and a level of assurance for Southwater Multi Storey Car Park. The Internal Audit opinion on these controls will contribute to the Annual Internal Audit opinion included in the Council's Annual Governance Statement.

1.2 The scope of the audit was agreed by the SDM – Regeneration & Investment

1.3 We would like to thank the following for their help during the audit :

- ❖ Senior Surveyor
- ❖ Facilities Management Team Leader
- ❖ Facilities Management Group Manager
- ❖ Finance Assistant
- ❖ Senior Finance Officer
- ❖ Accountant (Capital and Infrastructure Finance)
- ❖ Capital & Infrastructure Finance Team Leader

2. Management Summary and Overall Opinion

- 2.1 On the basis of the work carried out, our opinion based on the level of assurance provided by the controls for this audit area is Limited - whilst there is basically a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key.
- 2.2 Recommendations have been made to strengthen the controls found to require improvement and these are set out in section 4 of this report with risk ratings and categories alongside your agreed actions. We have included a risk rating - High, Medium, and Low- for each recommendation to assist you in the prioritisation of their implementation.

Recommendation Risk Rating	Number	Percentage
High	2	14%
Medium	11	79%
Low	1	7%
Total	14	100%

- 2.3 As part of the audit process we also identified some minor items that did not require recorded recommendations but were discussed during the audit. These were listed in an Appendix to the Audit Report.
- 2.4 The implementation of the recommendations made in this report will strengthen the controls and processes in respect to Southwater Multi Storey Car Park.

GRANGE PARK PRIMARY SCHOOL

1. Introduction and Scope

- 1.1 An audit review commenced on 13th October 2015, to provide an opinion on the control environment and a level of assurance for Grange Park Primary School. We would like to thank the following for their help during the audit:
- Headteacher
 - School Business Manager
 - Administrative Assistant
 - Administrator

2. Good Practice Areas

- 2.1 During the audit a number of good practice areas within the processes for Grange Park Primary School were identified. These included:
- ** Minutes from Governors meetings are available on the school web site
 - ** Imprest account reimbursements are approved and signed as evidence by the Headteacher
 - ** Use of the cash till to record school fund income.

3. Management Summary and Overall Opinion

- 3.1 On the basis of the work carried out, our opinion based on the level of assurance provided by the controls at the school is Amber - whilst there is basically a sound system of control, there

are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key controls.

- 3.2 Recommendations have been made to strengthen the controls found to require improvement and these are set out with risk ratings and categories alongside your agreed actions. We have included a risk rating - High, Medium, and Low- for each recommendation to assist you in the prioritisation of their implementation.

Recommendation Risk Rating	Number	Percentage
High	1	5
Medium	12	60
Low	7	35
Total	20	100%

- 3.3 As part of the audit process we also identified some minor items that did not require recorded recommendations but were discussed during the audit with the Headteacher and School Business Manager.

- 3.4 As part of this audit we have also followed up the implementation of recommendations made in the previous audit. The table below shows the action taken since that audit:

Recommendation Category	No of Recs	Implemented	Not Implemented	Agreed future Implementation
Legal Requirement	1	1		
Financial Regulation	4	3	1	
Policy/Procedure	4	3	1	
Best Practice	1	1		
Total	10	8	2	0

- 3.5 The implementation of the recommendations made in this report and those outstanding from the previous review will further strengthen the controls and processes in Grange Park Primary school.

DOWNING HOUSE

1. Introduction and Scope

- 1.1 An audit review was commenced September 2015, to provide an opinion on the control environment and a level of assurance for Downing House. We would like to thank the following for their help during the audit:

- ❖ Service Leader
- ❖ Team Secretary

2. Management Summary and Overall Opinion

- 2.1 On the basis of the work carried out, our opinion based on the level of assurance provided by the controls for this audit area is Limited. Whilst there is basically a sound system of control,

there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key controls.

- 2.2 Recommendations have been made to strengthen the controls found to require improvement and these are set out with risk ratings and categories alongside your agreed actions. We have included a risk rating - High, Medium, and Low- for each recommendation to assist you in the prioritisation of their implementation.

Recommendation Risk Rating	Number	Percentage
High	2	6
Medium	34	94
Low	0	
Total	36	100

- 2.3 During the audit a number of good practice areas within the process for Downing House were identified. These included:

- ❖ The Service Leader has ensured each client finance record has a copy of the finance procedures inside the folder.
- ❖ The Service Leader has a set procedure for weekly box checks, during the audit it was noted that these are adhered to weekly and are carried out on all client tins.
- ❖ A risk assessment was carried out by the service leader at Downing House. The service leader put together a set of Management of Risk points used for the finance procedures.

- 2.4 The implementation of the recommendations made in this report will further strengthen the controls and processes in respect to client finances at Downing House.

Internal Audit Charter – 1st April 2016 – 31st March 2017

1. Introduction

- 1.1 This charter defines for the Council and the community internal audit activity's purpose, authority and responsibilities consistent with the requirements of the Public Sector Internal Audit Standards (PSIAS)¹ and the Council.
- 1.2 This charter will be approved by the Audit Committee, after consultation with senior management² and will be reviewed annually.

2. Internal Audit Purpose and Responsibilities

2.1 Internal Audit Purpose

- 2.1.1 The Internal Audit, Information Governance (IG) & Insurance Services Team is led by the Internal Audit, IG & Insurance Services Service Delivery Manager. The team supports the Co-operative Council in the delivery of services to the community to help improve their quality of life and the promotion of Telford & Wrekin as a place of partnership, enterprise and innovation. The team supports the whole Council to deliver economic, efficient and effective services³ and achieve the Council's vision, priorities and values.

2.2 Internal Audit Objectives

- 2.2.1 To review the effectiveness of the governance, risk management and control processes of the Council to aid improvement, provide a level of assurance and an opinion on them to the Council.
- 2.2.2 To provide a respected, cost effective and quality internal audit service including the provision of advice and guidance to assist our customers to meet their objectives and improve their services, including the rationalisation of controls, where appropriate.
- 2.2.3 To deliver activity whilst meeting the requirements of the Public Sector Internal Audit Standards (PSIAS) including the Definition of Internal Auditing, the Code of Ethics and the Core Principles for the Professional Practice of Internal Auditing (see ANNEX I).
- 2.2.4 To work with the external auditor and other review bodies to provide the most effective internal audit service.
- 2.2.5 To value and continuously develop the team.

2.3 Internal Audit Responsibilities

- 2.3.1 To undertake the statutory Section 151 audit for the Chief Financial Officer (CFO), in line with the Accounts and Audit Regulations 2015.
- 2.3.2 To deliver the Council's annual audit plan taking into account the Accounts and Audit Regulations 2015, the management of risk, senior management consultations, comments from the Audit Committee and any requirements of the External Auditor. The plan is regularly reviewed and amended, if required. Any significant changes are reported to senior management and the Audit Committee.
- 2.3.3 To ensure that there are sufficient resources to deliver the statutory requirements and plan above and to report any potential concerns to the CFO and Audit Committee.

¹ PSIAS apply the IIA International Standards to the UK Public Sector and have been endorsed as proper practice by CIPFA the Internal Audit standard setters for Local Government.

² Senior management is the Senior Management Team comprising the following officers - Managing Director, Directors and Assistant Directors.

³ By providing advice and guidance on the management of risks, controls and governance processes in service delivery and by supporting service reviews, restructures and reducing bureaucracy

- 2.3.4 To operate as an independent, objective assurance and consulting function designed to add value and improve the effectiveness of the governance, risk management and control processes of the Council.
- 2.3.5 To appropriately manage any potential conflicts of interest in the delivery of internal audit activities and non-audit activities and to periodically rotate the annual audit work between staff.
- 2.3.6 To provide clear and concise internal audit reports to support management in implementing recommendations to improve services and risk management, control and governance processes.
- 2.3.7 To provide responsive, challenging and informative advice and support on risk management, controls and governance to management.
- 2.3.8 To report to the Audit Committee⁴ as defined in their terms of reference.
- 2.3.9 To develop and maintain a quality assurance and improvement programme covering all aspects of the internal audit activity.
- 2.3.10 To arrange at least once every 5 years an external assessment of internal audit by an appropriate person⁵ from outside the Council. The timing, form of the assessment and the results will be agreed with and reported to the Audit Committee.
- 2.3.11 To investigate employee cases of suspected financial irregularity, fraud or corruption, except council tax support/housing benefit fraud investigations, in accordance with agreed procedures.
- 2.1.12 To provide appropriate assurance to relevant parties external to the Council.

2.4 Internal Audit Authority

- 2.4.1 The Internal Audit, IG and Insurance Services Service Delivery Manager is the Council's Chief Audit Executive as defined in the PSIAS.
- 2.4.2 The Internal Audit, IG and Insurance Services Service Delivery Manager is line managed by the Council's Chief Financial Officer but has unfettered access to the Managing Director and all senior managers within the Council.
- 2.4.3 The Internal Audit, IG and Insurance Services Service Delivery Manager reports to the Audit Committee but also has unfettered access to Cabinet Executives, the Chair of the Audit Committee and the External Auditor.
- 2.4.4 In order for Internal Audit officers to be independent and objective whilst undertaking Internal Audit activity they have the authority to:
 - enter at all reasonable times any Council premises or land;
 - have access to all Council and partner records⁶, documentation and correspondence relating to any financial and/or other transactions or other business of the Council, its employees or members, as considered necessary by the CFO, Monitoring Officer or Internal Audit, IG & Insurance Services Manager;
 - have access to records belonging to third parties such as contractors or partners when required;
 - require and receive such explanations as are regarded necessary concerning any matter under examination from any employee, member, partner or third party; and
 - require any employee or member of the Council or any partner/third party to account for cash, stores or any other Council property which is under his/her control or possession on behalf of the Council.

⁴ The Audit Committee is the Board as defined in the Public Sector Internal Audit Standards

⁵ Qualified, independent assessor or assessment team

⁶ Records include business e-mail and internet records

2.5 How the Internal Audit, IG & Insurance Services Service Delivery Manager will form and evidence her opinion on the control environment to support the Annual Governance Statement.

2.5.1 The Internal Audit, IG & Insurance Services Service Delivery Manager prepares an annual audit plan. Internal Audit planning is informed and influenced by the Council's vision, priorities and values, the strategic risk register, the requirements of the External Auditor, previous Internal Audit work, external networking intelligence, discussions with the CFO and consultations with the Council's service area management teams and senior management.

2.5.2 The audit plan outlines the work assignments to be carried out, the resources allocated and the Council priority or priorities it contributes to. The plan is flexible in order to reflect the changing needs and priorities of the organisation. Work is carried out by the audit team in accordance with the Standards using a risk based audit methodology and each Internal Audit report provides an opinion on the area reviewed.

2.6 How Internal Audits work will identify and address significant local and national issues and risks

2.6.1 The Internal Audit, IG & Insurance Manager has quarterly meetings with the Managing Director. Senior audit staff meet with Assistant Directors and their management teams as required to identify any local and national issues and risks, changes in the service area, and any new areas that require input from Internal Audit.

2.6.2 Employees within Internal Audit have access to the CIPFA Audit Panel, West Midlands Internal Audit Groups (including Fraud, Contract and Education sub-groups) and other CPD/networking events through Chartered Institute of Public Finance Accountants and the Chartered Institute of Internal Auditors. These support continued professional development and help to identify any issues that may affect the delivery of internal audit services.

2.7 Internal Audit Resources

2.7.1 For 2016/17 the Internal Audit team has a resource of 4.42 full time equivalent (fte) employed staff plus at least 50% of the Internal Audit, IG & Insurance Services Service Delivery Manager. In addition there is an external contract⁷ which will deliver around 50 days of specialist IT or general audit work.

2.7.2 The budget for Internal Audit⁸ is approved by the Council as part of the annual service and financial planning strategy following consideration by senior management, Scrutiny and the Cabinet.

2.8 Internal Audit and the Audit Committee

2.8.1 Internal Audit will report to the Audit Committee on the following:

- a) Approval of the Internal Audit Charter;
- b) Approval of the risk based Internal Audit Plan;
- c) Quarterly update reports on Internal Audit activity and performance against the plan;
- d) An annual report containing an opinion to inform the Annual Governance Statement; and
- e) Any concerns in respect to Internal Audit resources and the level of assurance that can be provided.

⁷ This has been procured through a framework agreement with Staffordshire County Council, Shropshire Council and Worcestershire County Council for the provision of general and specialist IT audit work.

⁸ Including the remuneration of the Audit & IG Manager.

Public Sector Internal Audit Standards

The definition of Internal Auditing within the Standards is:

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

Code of Ethics - Summary

Internal auditors in UK public sector organisations must conform to the Code of Ethics within the Standards. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.

There are 4 principles in the code of ethics:

- 1) Integrity – The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.
- 2) Objectivity – Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.
- 3) Confidentiality – Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
- 4) Competency – Internal auditors apply the knowledge, skills and experience needed in the performance of internal audit services.

Internal auditors who work in the public sector must also have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life*.⁹

Internal Auditing Professional Practices Framework

Core Principles for the Professional Practice of Internal Auditing

1. Demonstrates integrity.
2. Demonstrates competence and due professional care.
3. Is objective and free from undue influence (independent).
4. Aligns with the strategies, objectives, and risks of the organization.
5. Is appropriately positioned and adequately resourced.
6. Demonstrates quality and continuous improvement.
7. Communicates effectively.
8. Provides risk-based assurance.
9. Is insightful, proactive, and future-focused.
10. Promotes organisational improvement

⁹ Information can be found at www.public-standards.gov.uk

TELFORD & WREKIN COUNCIL

AUDIT COMMITTEE 26th JANUARY 2016

UPDATE ON THE ANNUAL GOVERNANCE STATEMENT 2014/15 ACTION PLAN

JOINT REPORT OF THE ASSISTANT DIRECTOR FINANCE & HUMAN RESOURCES & THE MONITORING OFFICER

1 SUMMARY OF MAIN PROPOSALS

1.1 For the Audit Committee to note the progress on the actions contained in the 2014/15 Annual Governance Statement (AGS) action plan for implementation during 2015/16.

2 RECOMMENDATION

2.1 That Members of the Audit Committee note the progress made against the actions in the AGS Action Plan in Appendix A.

3 SUMMARY IMPACT ASSESSMENT

COMMUNITY IMPACT	Do these proposals contribute to specific Priority Plan objective(s)?	
	Yes	<i>The Governance Framework encompasses the whole Council and therefore all of the Council's priorities.</i>
	Will the proposals impact on specific groups of people?	
	No	
TARGET COMPLETION/ DELIVERY DATE	<i>Progress on actions as at 30/11/15 from the 2014/15 AGS. Final position will be reported in the 2015/16 AGS which should be agreed by 30th June 2016.</i>	
FINANCIAL/VALUE FOR MONEY IMPACT	No	<i>Good governance processes support value for money in ensuring economy, efficiency and effectiveness in the Council's decision making processes.</i>
LEGAL ISSUES	Yes	<i>The requirement for an Annual Governance Statement is in the Accounts and Audit Regulations 2015 (paragraphs 4(3) and 10).</i>
OTHER IMPACTS, RISKS & OPPORTUNITIES	Yes	<i>Good governance supports the identification and management of risks and robust control arrangements.</i>
IMPACT ON SPECIFIC WARDS	Yes	<i>Borough-wide impact</i>

4 INFORMATION

4.1 Under the Accounts and Audit Regulations 2015 the Council is required to produce an Annual Governance Statement and it is best practice that the statement should include an action plan for further improvement. This report sets out the progress made to the end of November 2015 against the actions agreed in this action plan in June 2015.

5 PREVIOUS MINUTES

5.1 Cabinet 25th June 2015; Audit Committee 30th June 2015

6 BACKGROUND PAPERS

Local Code of Corporate Governance May 2008

Application Note to Delivering Good Governance in Local Government: a Framework March 2010

CIPFA/SOLACE – Delivering Good Governance in Local Government Guidance Note for English Authorities 2012 Edition and Addendum

Accounts and Audit Regulations 2015 (paragraphs 4(3) and 10).

Report by Jenny Marriott - Internal Audit, Information Governance & Insurance Services SDM 383101

2014/15 ANNUAL GOVERNANCE STATEMENT ACTION PLAN – Position as at 30th November 2015

No	Action	Lead Officer	Comments when AGS agreed and Target Completion Date	Updated Position as at 30 th November 2015 and Target Completion Date (original or revised)
1.	Continued strategic management of organisational change in respect to revised structures, and commercial/business approach which links to the continued development and implementation of revised governance framework (encompassing information security, information technology, partnership and project governance).	Managing Director and SMT	<p>Agreeing the revised governance requirements and incorporating into any changes to the Constitution, strategies and policies.</p> <p>Change management processes have been adjusted to reflect the different phase of change which the council is currently in Endorsing and delivering an awareness programme for officers and members. Updated Constitution effective from May 2015.</p> <p>On-going 31/03/16</p>	New SMT structure to be in place by the end of January 2016.
2.	Preparations for the revised external audit arrangements.	AD Finance & Human Resources	<p>Local Audit and Accountability Act 2014 enacted but is not yet fully in force. Further secondary legislation and guidance to be published.</p> <p>External audit procurement – planning may need to commence early 2016 if contracts not extended.</p> <p>Planning for revised final accounts deadlines for 2017/18 to commence in 2015/16 so can be phased changes to practices. Draft accounts by 31st May (instead of 30th June) and audited accounts by 31st July instead of 30th September.</p> <p>On-going 31/03/16</p> <p>Procurement – possibly from January 2016.</p> <p>Working towards updated final accounts timetable for 2016/17 onwards.</p>	<p>Contracts have now been extended by the DCLG for one year so External Auditors need to be appointed by December 2017 for audit of 2018/19 accounts. Internal meeting in early 2016 to discuss and agree timetables, roles and responsibilities. Also to include requirements of the recent guidance from CIPFA/DCLG re Auditor Panels.</p> <p>Working towards updated final accounts timetable for 2016/17 onwards.</p>

No	Action	Lead Officer	Comments when AGS agreed and Target Completion Date	Updated Position as at 30 th November 2015 and Target Completion Date (original or revised)
3.	<p>Complete the review and implementation of Workforce Development priorities and delivery. Continue to review and update the management competencies and skills required in the revised organisation. Review of Human Resources policies and procedures to support the priorities and organisational change.</p>	<p>Managing Director and AD – Finance & Human Resources</p>	<p>The key leadership, management and workforce requirements have been identified and the Council's development programme now reflects these. The programme is revised on a rolling basis. People policies have been prioritised and are being revised and renegotiated in line with these priorities.</p> <p>On-going as agreed with SMT (31/03/16).</p>	<p>The rolling review of priorities continues as organisational demands change. We continue to invest in our e-learning platform and have a variety of on line learning available. Our e-learning platform now includes face to face learning to reflect access to learning in one place.</p> <p>We have worked with SMT and managers to isolate the qualities/behaviours we require of managers in the forthcoming new structure and way of working with the Council post January 2016.</p> <p>Learning to support core workforce and key leadership and management requirements continue to be managed on a rolling basis. Whilst some areas have a detailed workforce Development plan a council wide Workforce Development Plan will be a priority in the new structure.</p> <p>Employment Policies are also reviewed to coincide with external and organisational priorities and change. We regularly operate to a schedule of these and in recent months have reviewed and renegotiated the Sickness Absence policy, Redeployment support, Probation, Business and Private activities, social media along with incorporating new employment legislation into existing practice. This has included implementing the Flexible Working Policy</p>
No	Action	Lead Officer	Comments when AGS agreed and Target Completion Date	Updated Position as at 30 th November 2015 and Target Completion Date (original or revised)
4.	<p>Deliver the improved processes and associated governance to deliver savings and service improvements in Adult Social Services alongside the development of the processes and Council governance arrangements for the revised Social Care and Health agendas and changes proposed for 2014/15 and</p>	<p>Director: Children's & Adult Services</p>	<p>The process and system for community care financial control has been implemented. This will ensure accurate data and appropriate financial control, and includes clearly defined roles and responsibilities of teams and individuals for entering data for all practitioners and SDS&BT, and via agreed communications channels. Cost improvement plan is being implemented along with recommendations from Capita and John Bolton reviews. This has delivered</p>	<p>Recommendations from external reviews of Adult Social Services together with a Cost Improvement Plan have been implemented and are closely monitored via the Senior Management Team and Members, including Audit and Scrutiny committees. Savings have been delivered and will continue to be delivered in line with the Cost Improvement Plan through 15/16 and beyond.</p> <p>Our next formal external review of Adult Social Services will take place in May/June 2016.</p>

	beyond.		<p>savings during 14/15 which will continue into 15/16 and beyond. Robust action plans and ownership in place, which is monitored on a monthly basis. Challenge in place via Members, MD, and Director.</p> <p>Care Act Implementation programme completed for 1st April 2015 and then to be implemented for 1st April 2016. Chair – Director. Programme Lead – Clare Hall-Salter</p> <p>31/03/16 and beyond</p>	<p>The Service Improvement and Efficiency Team are now responsible for ensuring that processes and systems are fit for purpose and are followed by staff to ensure appropriate financial control and compliance with the new legislation under the Care Act 2014.</p> <p>A new Target Operating Model has been launched on 11th November 2015 with clearly defined roles and responsibilities for all staff within the restructured Adult Social Services.</p> <p>Care Act reforms Part 2 are no longer required to be implemented for April 2016, as they have now been delayed until April 2020.</p>
No	Action	Lead Officer	Comments when AGS agreed and Target Completion Date	Updated Position as at 30th November 2015 and Target Completion Date (original or revised)
5.	Implement the governance aspects of the improvement plans arising from external Ofsted and Care Quality Commission (CQC) inspection reports and peer reviews/challenges.	Director: Children's & Adult Services	<p>This action plan is particularly focussed on any recommendations from external reviews that improve the governance arrangements in these areas.</p> <p>Various dates throughout 2015/16</p>	<p>Children:</p> <p>Governance of improvement plans, including findings from external inspections, is via regular updates at Children and Family Services Senior Leadership Team. External governance is provided by the LSCB Quality, Performance and Operations Sub Group, where progress reports are submitted twice yearly. The most recent progress report was submitted on 11.11.15</p> <p>Adults:</p> <p>Our last formal peer challenge took place in July 2013, and in 2014 we invited Capita and Professor John Bolton to challenge progress on action plan emanating from peer challenge and progress against cost improvement plan. We continue to have monthly "challenge" sessions with Cabinet Members/Managing Director</p> <p>In respect of Sector Led Improvement/Peer Challenge for Adult Social Care we are taking part in a West Midlands Peer Challenge Summit on 4 December where we have</p>

				<p>been paired with Warwickshire who will offer challenge on our performance.</p> <p>Our next formal peer challenge through the West Midlands scheme will be in May/June 2016.</p> <p>Carwood House received a CQC inspection during the Spring of this year and an action plan is in place to address areas for improvement however Carwood will be closing by the end of January 2016 but the areas for improvement are still relevant and best practice. A separate action plan is available for viewing on request.</p>
No	Action	Lead Officer	Comments when AGS agreed and Target Completion Date	Updated Position as at 30th November 2015 and Target Completion Date (original or revised)
6.	Continue to develop and implement appropriate governance arrangements to support commercial projects.	Managing Director/ Monitoring Officer/CFO/ AD Commercial Services/ AD Business, Development & Employment	<p>Continued support and review of the separate company arrangements and associated governance issues.</p> <p>Ensure continued proper governance arrangements for commercial projects including robust business cases and funding approval.</p> <p>On-going during 2015/16</p>	These actions continue to be on-going during 2015/16 with appropriate support services being provided by the Council with appropriate governance arrangements.

TELFORD & WREKIN COUNCIL

AUDIT COMMITTEE 26th JANUARY 2016

REVIEW OF THE EFFECTIVENESS OF THE AUDIT COMMITTEE 2015/16

REPORT OF THE INTERNAL AUDIT, IG & INSURANCE SERVICES SDM

1 PURPOSE

1.1 For members of the Audit Committee to:

- a) agree the survey to measure the effectiveness of the Audit Committee; and
- b) agree that the results of the survey will be reported to the Audit Committee in June 2016.

2 RECOMMENDATIONS

2.1 That Members agree the survey attached as Appendix A and to issue it to those outlined in paragraph 5.2 to measure the effectiveness of the Audit Committee; and

2.2 That Members agree that the results of the effectiveness survey will be presented to the June 2016 Audit Committee.

3 SUMMARY

3.1 The last survey to review the effectiveness of the Audit Committee was undertaken in February 2013. A decision was made by the Audit Committee in January 2014 to undertake the surveys bi-annually but to postpone the next survey until after the Council's elections in May 2015.

3.2 It is good practice for the Council and the Committee to review its effectiveness as it helps to demonstrate good governance by measuring and reporting on its effectiveness including the identification of any improvement areas.

4 PREVIOUS MINUTES

4.1 Audit Committees 2nd February 2010, 1st February 2011 and 31st January 2012, 29th January 2013 and 28th January 2014.

5 BACKGROUND

5.1 It is proposed to use the survey attached as Appendix A. This will enable comparisons with previous years to be made.

5.2 It is proposed that the survey should be issued to and completed by the end of February 2016 by the following officers and Members:

- a) Members of the Audit Committee;
- b) The Leader, Cllrs Richard Overton and Lee Carter – relevant Cabinet Members;
- c) Managing Director, Chief Financial Officer (Assistant Director – Finance & Human Resources), Monitoring Officer (Assistant Director – Legal, Procurement & Commissioning) and the Internal Audit, IG and Insurance Services SDM;
- d) Directors/Assistant Directors/other officers who have attended the Committee in the last 12 months; and
- e) the External Auditor (KPMG).

- 5.3 The analysis of the effectiveness survey will assist the Committee in discussions about any weaknesses and areas for development/training.

6 OTHER CONSIDERATIONS

AREA	COMMENTS
Equal Opportunities	The review and skills audit should ensure Equality of Opportunity for all those completing them.
Environmental Impact	None
Legal Implications	<p>The Council are a relevant body within the meaning of the Accounts and Audit Regulations 2015 and therefore must comply with the requirements set out in the Regulations. This includes, at Regulation 6, a requirement for an annual review of the effectiveness of its system of internal control. The effectiveness of the Audit Committee survey within recommendation 2.1 will contribute towards meeting this requirement as the Audit Committee is part of the Council's system of internal control. The findings of the effectiveness review must come back to this Committee following which the Council must approve its annual governance statement. This will be undertaken by the Committee in accordance with its powers, functions and responsibilities as set out in Section 2 of the Council's Constitution at the Audit Committee Terms of Reference section, paragraph 19.</p> <p>The method of compliance with both these requirements is not specified and therefore is a matter for the Council to determine.</p>
Links with Corporate Priorities	An effective Audit Committee supports the Council's good governance arrangements encompassing the internal control and internal audit arrangements.
Opportunities and Risks	<p>Reviewing the effectiveness of the Audit Committee supports the effective management of risks and opportunities across the Council.</p> <p>The Audit Committee challenges and seeks assurances that the risk management processes are working effectively.</p>
Financial Implications	Any costs associated with the distribution and analysis of the survey will be met from within existing budgets. Any additional costs identified from the survey such as development or training will also have to be met from within existing cash limited budgets.
Ward Implications	None.

7 BACKGROUND PAPERS

The Accounts and Audit Regulations 2015
 Previous surveys audit reports to Audit Committee

Report by Jenny Marriott, Internal Audit, Information Governance and Insurance Services Service
 Delivery Manager 383101

Effectiveness of the Audit Committee 2015/2016 - Survey

Assessment scores:

N/A = not applicable	1 = hardly ever/ poor	2 = occasionally/ inadequate
	3 = most of the time/ satisfactory	4 = all of the time/ good

	N/A	1	2	3	4
Processes					
1 Composition of Members					
The Committee members have an appropriate mix of skills and experience.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 Clear terms of reference					
There are clear, up to date terms of reference for the Audit Committee	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 Clear as to governance and risk management responsibilities					
The Committee is clear about its role in relation to governance and risk management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4 Sufficient number of meetings and access to resources					
The number and length of meetings and access to resources is sufficient to allow the Committee to be fully discharged	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5 Concise, relevant and timely information					
Committee papers are concise, relevant and timely.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6 Reports are received sufficiently far in advance if required to allow referral to Council meetings					
Committee meetings receiving relevant reports are held sufficiently far in advance of Council meetings to permit resolution of the issues raised	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7 Attendance and contribution to meetings					
All Committee members attend and actively contribute at meetings	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8 Sufficient time and commitment to undertake responsibilities					
All Committee members have sufficient time and commitment to fulfil their responsibilities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9 On-going personal development					
Committee members have access to on-going development activities to update their skills and knowledge	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10 Role in relation to Anti-Fraud and Speak Up Policies					
The Committee is responsible for and is kept informed of the Anti-Fraud and Speak Up policy and procedures in place within the Authority	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Assessment scores:

N/A = not applicable	1 = hardly ever/ poor	2 = occasionally/ inadequate
	3 = most of the time/ satisfactory	4 = all of the time/ good

Activities

11 Understanding the Authority’s business

All Committee members have a good understanding of the different risks inherent in the Authority’s business activities

12 Focus on appropriate areas

The Committee focuses on the right questions and is effective in avoiding minutia

13 Quality of interaction with external auditors

The Committee actively engages with the external auditors regarding the scope of their work and audit findings

14 Quality of interaction with internal audit

The Committee demonstrates an appropriate degree of involvement in the work of internal audit and its findings

15 Understanding of key financial issues

The Committee has a good understanding of the key financial issues, key accounting policies and Treasury Management.

16 Understanding of how assurance is gained

The Committee understands the interaction between the various sources of assurance available to it in addition to Internal Audit

17 Rigour of debate

Committee meetings encourage a high quality of debate with robust and probing discussions

18 Quality of chairmanship

The Chair promotes effective and efficient meetings, with an appropriate level of involvement outside the formal meetings

19 Frank, open working relationship with senior officers

Committee members have a frank and open relationship with senior officers.

20 Open channels of communication

The Committee has open channels of communication with officers and other members to keep it aware of topical/ regulatory issues

21 Perceived positive balance of roles

There is an appropriate balance between the monitoring role and the Committee acting as an “influencer for good”

22 Perceived to have a positive impact

The Committee is effective in achieving its terms of reference and adding value to the corporate governance of the Authority.

	N/A	1	2	3	4
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Are there any other comments or observations you wish to make about the effectiveness of the Audit Committee or its operation?

Name:.....

Officer/Member/Other:.....

(We would prefer that you complete this information but if you do not wish to put your name to it please just indicate if you are an officer/member/other)

Thank you for completing this questionnaire. Please return the completed form to:
Jenny Marriott – Internal Audit, IG & Insurance Services SDM, Finance & Human Resources,
Ground Floor, A Wing, Darby House.

by Friday 26th February 2016. Thank you