



Telford & Wrekin
C O U N C I L

Addenbrooke House Ironmasters Way Telford TF3 4NT

AUDIT COMMITTEE

Date **Tuesday 31 January 2017** Time **6.00pm**
Venue **Meeting Room G3-G4, Addenbrooke House, Ironmasters Way, Telford TF3 4NT**

Enquiries Regarding this Agenda:

Democratic Services	Stacey Worthington	01952 382067
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Committee Membership: Councillors **R J Sloan (Chair)**, **C F Smith (Vice Chair)**,
I T W Fletcher, K R Guy, A Lawrence, R Mehta, K S Sahota, W L
Tomlinson and D G Wright

AGENDA

1. **Apologies for Absence**
2. **Declarations of Interest**
3. **Minutes** **Appendix A**
To confirm the minutes of the Audit Committee held on 20 September 2016
4. **KPMG Annual Audit Letter 2015/16** **Appendix B**
To receive the report from KPMG.
5. **Grants Report 2015/16** **Appendix C**
To receive the report from KPMG.
6. **External Audit Plan 2016 / 17** **Appendix D**
To receive the report from KPMG.

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| 7. | 2017/18 Treasury Strategy and Treasury Update Report
To receive the report of the Assistant Director: Finance & Human Resources and Chief Financial Officer | Appendix E |
| 8. | 2016/17 Internal Audit Quarters 2 & 3 Update Report and Update of the Internal Audit Charter for 2017 / 18
To receive the joint report of the Service Delivery Manager: Audit, IG, Insurance & Investigation Team and the Principal Auditor | Appendix F |
| 9. | Update on the Annual Governance Statement 2015 / 16 Action Plan
To receive the report of the Service Delivery Manager: Audit, IG, Insurance & Investigation Team | Appendix G |

AUDIT COMMITTEE

A

Minutes of a meeting of the Audit Committee held on Tuesday, 20 September 2016 at 6.00pm in Meeting Room G3-G4, Addenbrooke House, Ironmasters Way, Telford

Present: Councillors R J Sloan (Chair), C F Smith (Vice Chair), A Lawrence, K S Sahota and D G Wright

In Attendance: A Bunting (Manager KPMG), K Clarke (Assistant Director Finance and Human Resources), P Harris (Finance Manager: Corporate & Capital) (until 7.05pm), P Katrak (Client Director Arlingclose) (until 6.40pm), J Marriott (Service Delivery Manager: Internal Audit, Information Governance & Insurance), R Montgomery (Information Governance & Insurance Team Leader), B Morris (Finance Team Leader) (until 7.05pm), I Pennington (Director KPMG), Jon Power (Organisational Delivery & Development Manager) (until 7.13pm).

AUC 16 Apologies for Absence

Councillors I T W Fletcher, K R Guy and B Tomlinson.

AUC 17 Declarations of Interest

None.

AUC 18 Minutes

Resolved – that the minutes of the meeting of the Audit Committee held on 28 June 2016 be confirmed and signed by the Chairman.

AUC 19 VERBAL PRESENTATION FROM THE COUNCIL'S TREASURY ADVISORS ON THE IMPLICATIONS FOR THE COUNCIL OF THE UK'S EXIT FROM THE EU

A presentation was delivered by P Katrak, Client Director Arlingclose, which provided the Committee with an update from the Treasury Advisors on the economy and outlook post the EU referendum. It was noted that there was a lack of clarity on the impact of Britain's exit from the EU on the financial markets, but the broader economy remained in global financial crisis. Economic recession and the Government's fiscal policy suggested a poor outlook, with reduced global economic activity, lower consumer confidence, higher unemployment, and rising import costs following a near 30% devaluation in the value of sterling.

In terms of inflationary pressures it was reported that commodity prices had been a key driver, China's economic growth subsiding had lowered demand, fracking and high supply of crude oil was being maintained within OPEC and inflation exceeded levels of wage growth, measured for the whole economy, until 2014 and real earnings growth (i.e. after inflation) was now positive.

Data from the Bank of England's Monetary Policy Committee (MPC) responsible for monetary stability, showed that since March 2009 the bank rate was at 0.5% and there was £375bn asset purchases (quantitative easing); in August 2016 in response to Brexit there was uncertainty, the bank rate was cut to 0.25% and there was £60bn more quantitative easing. However, Arlingclose advised that monetary policy on its own would not fix the economy and that fiscal measures were also needed from the Chancellor to guide the economy through the uncertainty, anticipated in an Autumn Statement.

The committee noted that political establishments and markets had been wrong-footed by the referendum outcome. The uncertainty was characterised by:

- a fall in the exchange rate
- a fall in consumer confidence
- a weakening in the outlook for economic growth
- a range of policy responses from the Bank of England
- further cut in Bank Rate to 0.25%
- additional and wider QE (£60bn)
- access to Term Funding Scheme for banks

The timing of Article 50 being invoked and whether or not there would be successful trade relations with the rest of the EU and rest of the world remained unknown. This raised questions for consumer and business confidence, together with other economic and political uncertainties, such as:

- potential US interest rate increases
- central banks' continuing appetite for ever looser monetary policy (QE),
- effect of negative interest rates (Eurozone, Japan, Switzerland, Sweden),
- outcome of the US presidential election in 2016
- Italy's referendum on its constitution in 2016
- German federal parliamentary elections in 2017
- French presidential elections in 2017.

AUC 20 EXTERNAL AUDIT REPORT 2015/16

The Committee received the External Audit Report presented by KPMG which summarised the key findings arising from the Council's audit work, in relation to the 2015/16 financial statement and the work to support KPMG's 2015/16 conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources (VFM conclusion).

The Committee noted that KPMG anticipated issuing an unqualified audit opinion on the Council's financial statement by 30 September and confirmed that the Annual Governance Statement complied with the guidance issued by CIPFA/SOLACE in June 2007.

KPMG reported that they did not identify any material misstatements to the Council's accounts and had advised on a number of minor presentational and disclosure changes to the supporting notes to the accounts to ensure compliance with the Code of Practice on Local Authority Accounting in the UK 2015/16.

Risks to the financial statements had been reviewed on an ongoing basis and no significant financial statement risks specific to the Council during 2015/16 had been identified. Other areas of audit focus had been identified in the 2015/16 external audit plan issued in April 2016; Group accounting; and Better Care Fund accounting. KPMG had worked with Officers to discuss these areas throughout the year and detailed findings were provided in Section 3 of the report; no matters of significance had arisen.

Draft accounts had been received in accordance with the DCLG deadline. It was reported that:

- the accounting policies, accounting estimates and financial statement disclosures had been in line with the requirements of the Code
- implementation of the fixed asset module in Agresso was consistent with KPMG's recommendation in the ISA 260 Report 2014/15
- good processes were in place for the production of the accounts
- good quality supporting working papers had been provided.

Members noted the VFM risks that had been identified in the External Audit Plan 2015/16, Better Care Fund Governance, and Budget Delivery. KPMG had discussed the risks with officers; detailed findings were reported in section 4 of the report. No matters of significance had arisen as a result of the audit work in the VFM risk areas. The conclusion, that the Council had made proper arrangements to secure economy, efficiency and effectiveness, was noted and KPMG would be issuing an unqualified VFM conclusion by 30 September 2016.

The audit of financial statements was reported to be substantially complete at the time of the Audit Committee meeting subject to all declarations made by members being seen, completion of review of the prior period adjustment disclosure; and final review of the revised statement of accounts.

KPMG would not be able to certify that all work was closed until questions from an elector had been resolved by the Authority; however, KPMG advised that they did not believe there would be an impact on their accounts audit opinion.

AUC 21 2015/16 STATEMENT OF ACCOUNTS

The Committee received the report on the outcome of the audit of the Council's accounts for 2015/16 and the final Statement of Accounts for approval.

In accordance with the Accounts and Audit (England) Regulations 2015 the Committee noted that the draft statement of accounts had been:

- certified by the Chief Financial Officer prior to the 30 June,
- presented to Audit Committee on the 28 June
- made available for public inspection
- provided to the external auditors to undertake the audit of accounts.

The Committee used its delegated authority to approve the council's final audited Statement of Accounts; no financial adjustments had been made as a result of the audit

and the outturn position remained as reported to Cabinet on 16 June 2016. Presentational changes identified had been agreed and included in the final version and a comment in relation to the result of the European Referendum had been added in relation to post balance sheet events.

One elector question relating to 2015/16 part of the statement of accounts remained outstanding.

To comply with International Auditing Standards, the external auditor had presented the Annual Governance report to the Audit Committee which commented on the final accounts audit; an unqualified audit report had been presented by KPMG.

Resolved that –

- a) the 2015/16 Statement of Accounts be approved;**
- b) authority be delegated to the Assistant Director: Finance & HR to make any presentational changes required to the Statement of Accounts prior to publication;**
- c) the updated action plan appended to the Annual Governance Statement be approved.**

AUC 22 PUBLICATION OF INFORMATION ON COUNCILLORS WHO TRADED WITH THE COUNCIL DURING 2015/16

The Committee received the report on information that was due to be published on Councillors who traded with the Council during 2015/16. The information had been collected as part of the final accounts process to provide better transparency, and was in addition to the declarations of interest.

The information provided details of the 2015/16 year's value and a description of any payments made by the Council to any businesses/companies where that Member had an interest. This information would be readily accessible by the public and demonstrated the Council's co-operative commitment to openness.

Resolved that the contents of the report be noted together with the information that will be published on the Council's website.

AUC 23 STRATEGIC RISK REGISTER

The Committee received the report on the Strategic Risk Register; which enabled the Council to meet its statutory requirements. Members noted that the register was a means of identifying and managing the substantive issues that could impact negatively on delivery of the Council's priorities. The Register had been presented to Cabinet in July 2016, in line

with governance arrangements; which allowed the Cabinet to demonstrate that the Council understands its key risks and how they were being mitigated.

The key ongoing risks which had been identified for 2016/17 and the mitigating actions in place to manage these risks were appended to the report. The Committee noted that the register was reviewed and updated as necessary on a regular basis to ensure appropriate management of these risks and mitigations and to make sure they were always current.

The Committee questioned the risk of reduced resources and support for managers responsible for budgets and finance. It was noted that the size and volatility of the budgets was monitored and reviewed closely, that training requirements had been identified and a small number of managers had been equipped to take on greater management and control of their budgets.

The Committee noted the insurance cover for children who had been exposed to CSE and were assured that the Council had sought advice on the policy from nationally renowned brokers. Details of the policy would be circulated to the Committee members following the meeting.

Resolved that the strategic risks is appendix A of the report be noted.

AUC 24 AUDIT COMMITTEE ANNUAL REPORT 2015/16

The Committee received the report of the 2015/16 operations of the Audit Committee. It was noted that as this was the key assurance Committee of the Council, best practice was to present an Annual Report to the Council on the operations of the Committee during the municipal year (May 2015 – April 2016). The structure of the report was based on the terms of reference and included a summary of the business conducted by the Committee during the period.

The Committee noted the conclusions on the work of the Committee during 2015/16, which had included comprehensive agendas providing assurance for Members and the community on the audit, governance (including information governance), risk management, financial statements, treasury management, complaints and anti-fraud and corruption arrangements of the Council. Many challenging questions had been asked by Members who had required senior officers to attend and give account for decisions taken and progress in implementing both internal and external audit recommendations.

For 2016/17, the Committee recognised that the Council was continuing to experience significant challenges and that it would continue to seek and provide appropriate assurance during 2016/17. Most notable were the organisational changes, continued significant reductions in resources and the greater commercial approach being adopted by the Council.

Resolved that the contents of the annual report 2015/16 be noted.

AUC 25 2016/17 INTERNAL AUDIT QUARTER 1 UPDATE REPORT AND INFORMATION GOVERNANCE REPORT TO END JULY 2016

The Committee received the report which provided an update on the work of Internal Audit during quarter one; April – June 2016 and the appointment of CIPFA Business Ltd to undertake the External Assessment of Internal Audit against the Public Sector Internal Audit Standards (PSIAS).

The report also provided details on the work of the Information Governance team from April – July 2016.

The Committee noted the requirement for the Council to comply with the Public Sector Internal Audit Standards for which an external assessment against the Standards was necessary every 5 years. The Standards were effective from 1st April 2013; therefore an assessment would have to be completed by 31st March 2018. Undertaking the audits as set out in the report and providing updates to the Committee contributed towards meeting the requirements, together with the necessary external assessment.

The Committee recalled that at the January 2016 Audit Committee meeting a collaborative procurement route had been agreed with Staffordshire County Council. The process and contract had been awarded on 1st July 2016 – 30th June 2018 to CIPFA Business Ltd at a cost of £6,900 to T&W. The cost would be met from within the existing budget and the Committee noted the emphasis on quality rather than cost. The Council's assessment would take place in January 2017 and the results (including an action plan) would be reported to the June 2017 Audit Committee. It was noted that undertaking the assessment in January 2017 would ensure that the assessment would be completed by 31st March 2018.

The Committee noted the detailed report on the work of Internal Audit from 1st April – 30th June 2016 and the update on the progress of previous audit reports issued (April 2013 to March 2016). The internal audit updates were appended to the report.

The key focus for the team during quarter one had been the commencement of the 2016/17 plan and completion of the audits outstanding from 2015/16 (including a few IT audits). It was reported that a long term absence had affected the work plan in the quarter but the plan was readjusted before the financial year started. Planning had started for some of the key financial systems audits and the specification for the 2016/17 IT audits had been developed; work was due to commence in quarter 2.

It was noted that Internal Audit was confident and had been assured by management that controls had and would continue to improve in all areas where recommendations had been made.

The Committee received information in respect to the number of Freedom of Information and Environmental Information requests and Subject Access Requests. Information was included in respect to 1 appeal to the Council and 2 complaints to the Information Commissioners Office. There was also information in respect to security incidents/data breaches levels of which were greatly reduced compared to last year.

The Committee recalled that the IG work programme for 2016/17 had been presented and approved at the June 2016 Audit Committee. A summary had been appended to the report which provided detail of each task on the programme and the progress to date. IG had made good progress in terms of completing agreed tasks; the majority of tasks due for

completion had either been completed on time or were within an acceptable extended timescale. The Committee was assured that IG was confident that the remaining tasks on the work programme would be completed in full by the end of 16/17.

Resolved that the information contained in the report be noted in respect of the work of Internal Audit and Information Governance for the first part of 2016/17 and the external assessment of Internal Audit against the PSIAS.

AUC 26 APPOINTMENT OF EXTERNAL AUDITORS BY 31/12/17 FOR APRIL 2018 ONWARDS

The Committee received the report that summarised the changes to the arrangements for appointing External Auditors following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits.

The Audit Committee changed their terms of reference at the June 2016 meeting and these changes were ratified by Council in July 2016. The changes included that the “Committee recommend the appointment of the External Auditors to the Council”.

The report:

- set out the options available and provided information for the future appointment of external auditors under the relevant legislation;
- provided details on the Sector Led Body (Public Sector Audit Appointment Ltd - PSAA) procurement route for the Council to opt into and recommended that the Council should approve opting into the PSAA for the procurement of the External Auditors.

A further report would be presented to the September 2017 Audit Committee so that the Audit Committee could recommend to full Council the appointment of External Auditors by 31 December 2017 ready for 1st April 2018.

The Committee considered the advantages, disadvantages and risks of each option as outlined in the report and questioned the practical impact of the recommended option of the PSAA. Members felt that the concept of this option was good but questioned whether in reality it would be the most cost-effective model. It was noted that economies of scale should mean that it would be the most cost-effective offer but it was recognised as a risk. It was noted that the Council would not be able to withdraw from the route if the fees were too high and that to secure economies of scale it would be necessary to lock in for 3-5 years. It was also noted that most authorities, both unitary and district in the Midlands were looking to take the sector led option.

Resolved -

- a) that the information and options available as set out in section 4 of the report be noted;**
- b) to approve that the Council uses option 3, the national Sector Led Body (SLB) appointed by the Government – Public Sector Audit Appointments Ltd - to undertake the procurement;**
- c) TO RECOMMEND TO COUNCIL that opting into the PSAA for the purpose of appointing External Auditors for 2018/19 onwards be approved;**

- d) to note that the CFO (or their delegated officer) takes appropriate actions following the Council decision to opt into the PSAA procurement process and engages with the PSAA to inform their specifications and proposed supplier in order to ensure appropriate independence; and
- e) to note that a further report be presented to the Audit Committee in September 2017 so that the Committee can agree and recommend the appointment of the External Auditor to full Council by 31 December 2017.

AUC 27 Exclusion of Press and Public

The Chair announced the exclusion of the Press and Public from the meeting for the next 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 28 CAPITAL RECEIPTS UPDATE

The Committee received a verbal update on capital receipts; including progress on the programme of disposals and projected disposals. It was noted that every effort had been made and continued to be made to ensure the timing was right for each disposal. It was also noted that there had not been a noticeable impact following the result of the referendum for Britain to exit the EU.

The meeting ended at 7.46pm

Chairman:

Date:



Annual Audit Letter 2015/16

Telford & Wrekin Council

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21 October 2016



Contents

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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. Public Sector Audit Appointments 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, Andrew Sayers (andrew.sayers@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 Annual Audit Letter summarises the outcome from our audit work at Telford & Wrekin Council in relation to the 2015/16 audit year.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.

VFM conclusion	<p>We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2015/16 on 28 September 2016. This means we are satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources.</p> <p>To arrive at our conclusion we looked at the Authority's arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.</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"> — The Authority is facing significant savings requirements as a result of the ongoing reductions in central government funding. In the face of these, the Authority developed a budget which required both cost reductions and relied upon the generation of additional income through commercial projects. We are satisfied that adequate arrangements are in place to monitor performance against the budget throughout the year and note that the Council delivered an underspend of £121k against this budget. However, like most bodies in the sector, the Authority will continue to face significant financial challenges in the future; and — Implementing the Better Care Fund necessitated strong partnership working with Telford & Wrekin CCG ("the CCG"). We confirmed that the Authority is working well with the CCG in order to develop detailed plans and monitor performance against objectives. Whilst the Authority and CCG are carrying out further work to develop more detailed objectives and performance-based reporting processes in a number of areas, we are satisfied that appropriate progress is being made.
Audit opinion	<p>We issued an unqualified opinion on the Authority's financial statements on 28 September 2016. 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. The financial statements also include for the first time those of the Authority's Group, which consists of the Authority itself and Nuplace Limited.</p>
Financial statements audit	<p>We are pleased to report that we did not identify any material misstatements to the Authority's accounts.</p> <p>We agreed a number of minor presentational and disclosure changes to supporting notes to the accounts to ensure that the accounts were compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.</p> <p>We raised no high priority recommendations as a result of our audit work.</p>
Other information accompanying the financial statements	<p>Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.</p>

Section one

Headlines (cont)

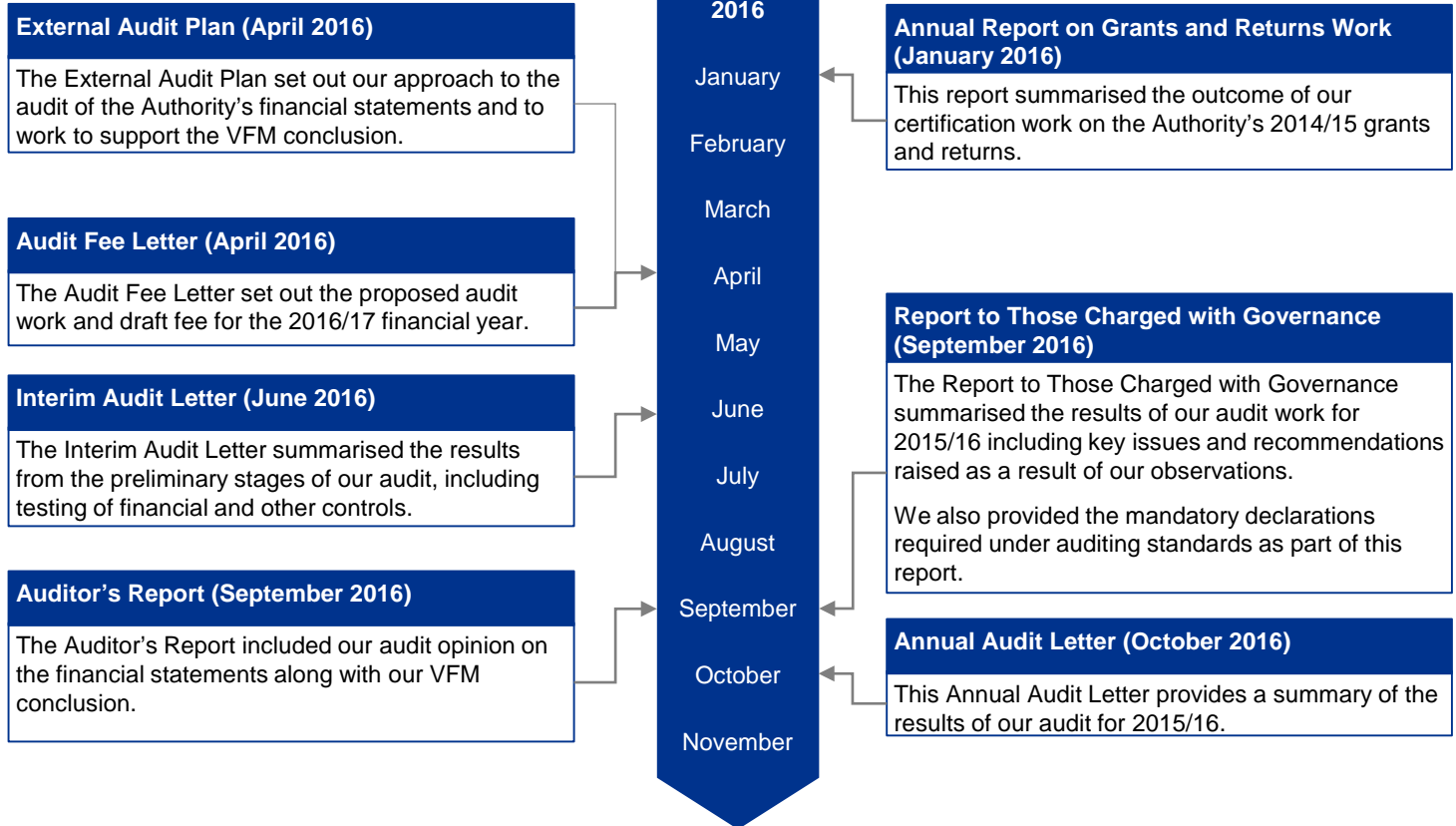
We have still to issue our certificate to confirm the completion of our audit responsibilities for the 2015/16 audit year. This has been delayed as a result of questions raised by an elector.

Whole of Government Accounts	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.
Certificate	We have received an elector question relating to the Authority's financial statements, and the Authority are currently attempting to resolve the question directly with the elector. This means that we are not yet able to issue our certificate (which will confirm that we have concluded the audit for 2015/16 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice).
Audit fee	Our fee for 2015/16 was £117,934, excluding VAT, which is slightly higher than our planned fee as a result of the work required in relation to the Authority's consolidated group accounts. Further detail is contained in Appendix 2.

Appendix 1: Summary of reports issued

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

These reports can be accessed via the Audit Committee pages on the Authority's website at www.telford.gov.uk.



Appendix 2: Audit fees

This appendix provides information on our final fees for the 2015/16 audit.

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2015/16 planned audit fee.

External audit

Our final fee for the 2015/16 audit of the Authority was £117,934. This compares to a planned fee of £117,119. The small increase reflects the additional work required for the audit of the Authority's consolidated group accounts.

In addition, as discussed on page 3, we are currently in receipt of questions raised by an elector. This may result in additional fees being charged if we need to carry out any work. We will agree these with the Assistant Director: Finance & HR, if required.

Our additional fees are still subject to final determination by 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 2017.

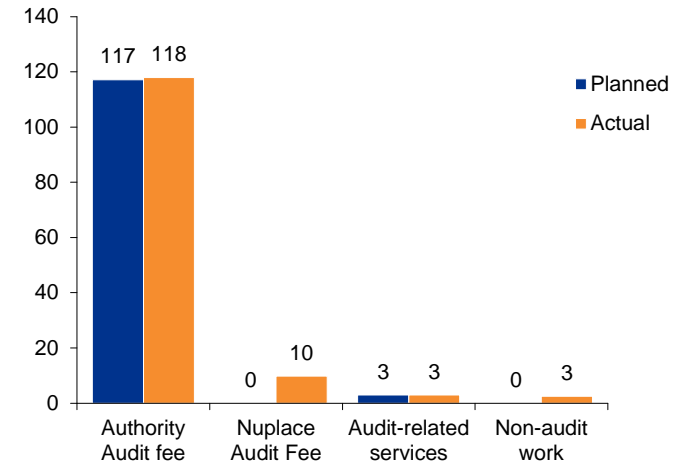
Other services

We will charge £3,000 for additional audit-related services for the certification of the Teachers' Pension return, which is outside of Public Sector Audit Appointment's certification regime.

Nuplace Ltd

Our fee for the separate audit of the Nuplace Limited financial statements is £9,850 plus VAT. We have also been engaged to assist Nuplace Limited with its tax computations, with a resulting fee of £2,500 plus VAT.

External audit fees 2015/16 (£'000)





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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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Annual Report on grants and returns 2015/16

Telford & Wrekin Council

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20 January 2017

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Headlines

Introduction and background

This report summarises the results of work we have carried out on the Council's 2015/16 grant claims and returns.

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 2015/16 is:

- Under the Public Sector Audit Appointments arrangements we certified one claim – the Council's 2015/16 Housing Benefit Subsidy claim. This had a value of £70 million;
- Under separate assurance engagements we certified the Council Teachers' Pensions Contributions return for the year ended 31 March 2016 with a value of £10 million.

Certification and assurance results (Page 3)

Our certification work on Housing Benefit Subsidy claim included:

- agreeing standard rates, such as for allowances and benefit incomes, to the DWP Circular communicating the value of each rate for the year;
- sample testing of benefit claims to confirm that the entitlement had been correctly calculated and was supported by appropriate evidence;
- undertaking an analytical review of the claim form considering year-on-year variances and key ratios;
- confirming that the subsidy claim had been prepared using the correct benefits system version; and
- completing testing in relation to modified schemes payments, uncashed cheques and verifying the accurate completion of the claim form.

Following the completion of our work, the claim was unqualified

Our work on the Teachers' Pension Contributions return resulted in a reasonable assurance with no issues being reported.

No adjustments were necessary to any the Council's grants and returns as a result of our certification work this year

Recommendations

We have made no recommendations to the Council from our work this year.

In addition there were no recommendations raised as a result of the previous year's work on grants and returns.

Fees (Page 4)

Our fee for certifying the Council's 2015/16 Housing Benefit Subsidy grant was £9,239 which is in line with the indicative fee set by PSAA.

Our fee for the other 'assurance' engagement, the Teachers' Pensions Contributions return, was subject to agreement directly with the Council and was £3,000.



Summary of reporting outcomes

Overall, we carried out work on two grants and returns, each of which was unqualified with no amendment.

This table summarises the key results in relation to each of the grants and returns subject to certification.

We summarise below the reporting outcomes from our work on the Council’s 2015/16 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.

	Comments overleaf	Qualified	Significant adjustment	Minor adjustment	Unqualified
Public Sector Audit Appointments regime					
— Housing Benefit Subsidy	1				
Other assurance engagements					
— Teachers’ Pensions Contributions	2				
		-	-	-	2

Ref	Summary observations	Amendment
1	Housing Benefit Subsidy No issues identified as a result of out certification work	No Amendment
2	Teachers’ Pensions Contributions No issues identified as a result of out certification work	No Amendment

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 2015/16 was £12,239.

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 2015/16 of £9,239. Our actual fee was the same as the indicative fee, and this compares to the 2014/15 fee for this claim of £9,540. The reduction in the fee compared to prior year is a result of the methodology used by Public Sector Appointments Limited in calculating the fee.

Grants subject to other assurance engagements

The fees for our assurance work on other returns are agreed directly with the Council. Our fees for 2015/16 were the same as those in 2014/15.

Breakdown of fees for grants and returns work

Breakdown of fee by grant/return		
	2015/16 (£)	2014/15 (£)
Housing Benefit Subsidy claim	9,239	9,540
Teachers' Pensions Contributions	3,000	3,000
Total fee	12,239	12,540



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External Audit Plan 2016/2017

Telford & Wrekin Council

January 2017

Financial Statement Audit



In 2016/17 there are noteworthy changes to the Code of Practice on Local Authority Accounting in 2016/17. These are primarily in relation to presentational changes affecting the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement, and the introduction of new Expenditure and Funding Analysis.

Materiality

Materiality for planning purposes has been based on last year's expenditure and set at **£4.5 million**.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at **£0.225 million**.

Significant risks

Professional standards require us to consider the following two standard risks for all organisations:

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

In addition, we have identified the following risk as requiring specific audit attention and procedures to address the likelihood of a material financial statement error:

- Significant changes in the pension liability due to LGPS Triennial Valuation.

See pages 4 to 5 for more details.

Value for Money Arrangements work



Our risk assessment regarding your arrangements to secure value for money is ongoing, and we will report VFM significant risks during our audit. At our planning stage we have identified the following VFM significant risk:

- Budget Delivery.

See pages 8 to 12 for more details.

Logistics



Our team is:

- Ian Pennington – Director
- Mark Breese – Manager
- James Keen – Assistant manager

More details are on **page 15**.

Our work will be completed in four phases from January to September and our key deliverables are this Audit Plan and a Report to Those Charged With Governance as outlined on **page 14**.

Our fee for the audit is **£127,784** (£127,784 2015/2016) see **page 13**.

Introduction

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2016/17 presented to you in April 2016, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice.

Our audit has two key objectives, requiring us to audit/review and report on your:

- *Financial statements (including the Annual Governance Statement):* Providing an opinion on your accounts; and
- *Use of resources:* Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Financial Statements Audit

Our financial statements audit work follows a four stage audit process set out below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.



Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 8 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for the 2016/17 and the findings of our VFM risk assessment.





Financial Statements Audit Planning

Our planning work takes place during January 2017 to February 2017. This involves the following key aspects:

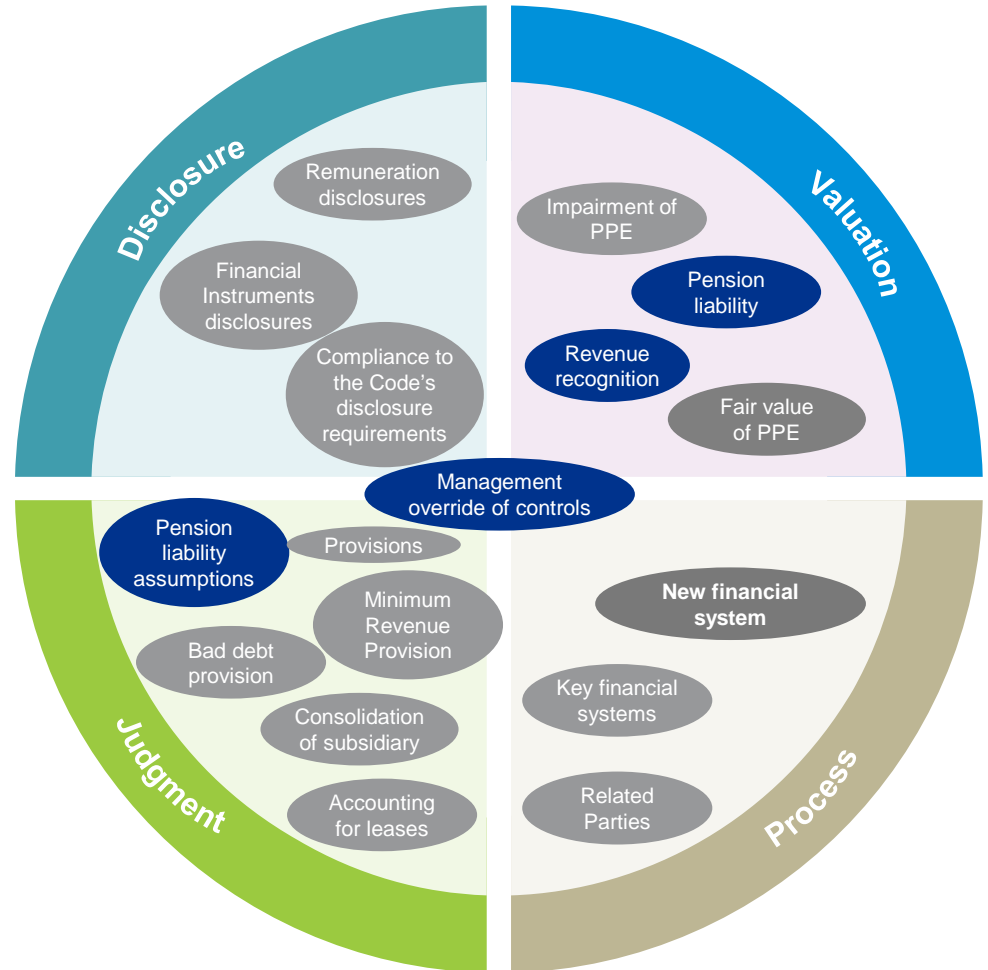
- Risk assessment;
- Determining our materiality level; and
- Issuing this audit plan to communicate our audit strategy.

Risk assessment

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

- **Management override of controls** – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- **Fraudulent revenue recognition** – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

The diagram opposite identifies significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.





Significant Audit Risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error.

Risk : Significant changes in the pension liability due to LGPS Triennial Valuation

Issue

During the year, the Local Government Pension Scheme for Shropshire County Pension Fund (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The Authority's share of pension assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation.

The pension liability numbers to be included in the financial statements for 2016/17 will be based on the output of the triennial valuation rolled forward to 31 March 2017. For 2017/18 and 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited data.

There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts – principally those relating to the calculation of the liability. Most of the data is provided to the actuary by Shropshire Council, who administer the Pension Fund.

Approach

As part of our audit, we will agree any data provided by the Authority to the actuary, back to the relevant systems and reports from which it was derived, in addition to checking the accuracy of this data.

We will also liaise with Grant Thornton LLP, who are the auditors of the Pension Fund, where this data was provided by the Pension Fund on the Authority's behalf to check the completeness and accuracy such data.



Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Other area of audit focus 1 - CIPFA Code Changes for 2016/17 regarding Presentation of Financial Statements and Accounts preparation

Issue

New formats and reporting requirements have been introduced for the Comprehensive Income and Expenditure Statement and the Movement of Reserves Statement. There has also been the introduction of a new Telling the Story review of the presentation of local authority financial statements.

Whilst the accounts deadlines for 2016/17 remain unchanged, the earlier deadline for 2017/18 will require next year's accounts to be signed and certified by the Section 151 officer by 31 May 2018, available for public inspection in the first 10 working days of June, and approved and published by 31 July. The Authority should ensure that sufficient arrangements are in place to meet these deadlines for 2017/18.

Approach

We will seek at an early stage to understand how the Authority is approaching the new requirements in the CIPFA Code and ensure there is a clear understanding of the audit requirements. As part of our audit we will conduct a detailed review of the presentation of these statements against the requirements of the Code.



Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

Materiality for planning purposes has been set at £4.5 million which equates to 1% of gross expenditure.

We design our procedures to detect errors in specific accounts at a lower level of precision.

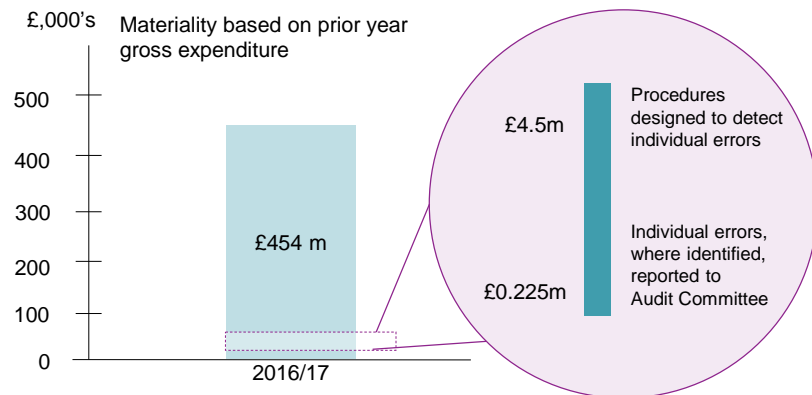
Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260(UK&I) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.225 million.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



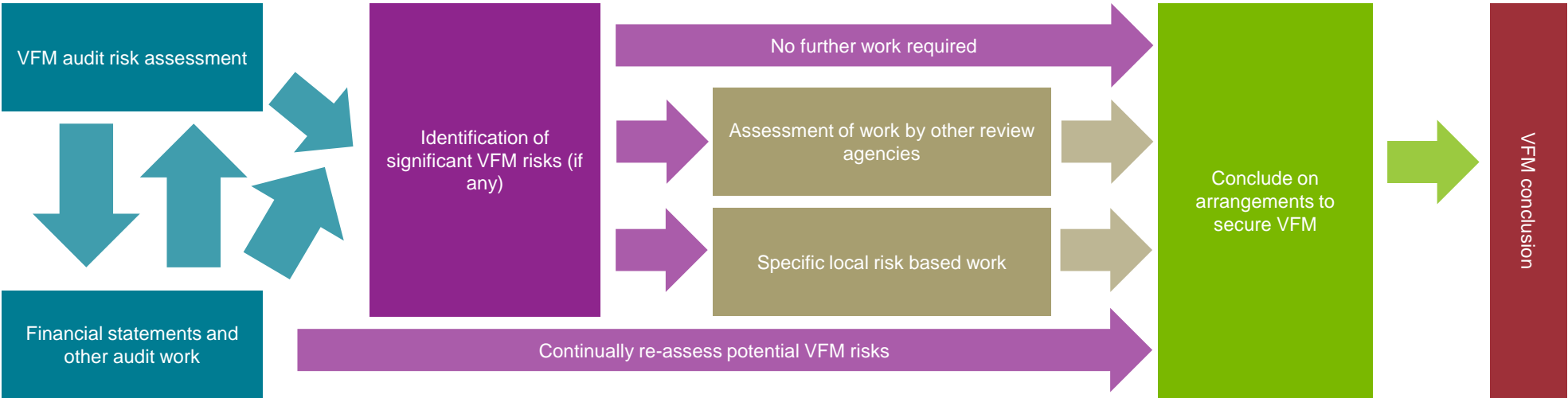


Background to approach to VFM work

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2015/2016 and the process is shown in the diagram below. The diagram overleaf shows the details of the criteria for our VFM work.





Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Informed decision making

Proper arrangements:

- Acting in the public interest, through demonstrating and applying the principles and values of sound governance.
- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.
- Reliable and timely financial reporting that supports the delivery of strategic priorities.
- Managing risks effectively and maintaining a sound system of internal control.

Sustainable resource deployment

Proper arrangements:

- Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.
- Managing and utilising assets to support the delivery of strategic priorities.
- Planning, organising and developing the workforce effectively to deliver strategic priorities.

Working with partners and third parties

Proper arrangements:

- Working with third parties effectively to deliver strategic priorities.
- Commissioning services effectively to support the delivery of strategic priorities.
- Procuring supplies and services effectively to support the delivery of strategic priorities.



VFM audit stage	Audit approach
VFM audit risk assessment	<p>We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the <i>Code of Audit Practice</i>.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> ■ The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; ■ Information from the Public Sector Auditor Appointments Limited VFM profile tool; ■ Evidence gained from previous audit work, including the response to that work; and ■ The work of other inspectorates and review agencies.
Linkages with financial statements and other audit work	<p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.</p> <p>We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</p>
Identification of significant risks	<p>The Code identifies a matter as significant '<i>if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.</i>'</p> <p>If we identify significant VFM risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> ■ Considering the results of work by the Authority, inspectorates and other review agencies; and ■ Carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Value for money arrangements work (cont.)



VFM audit stage	Audit approach
<p>Assessment of work by other review agencies</p> <p>and</p> <p>Delivery of local risk based work</p>	<p>Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk.</p> <p>If such evidence is not available, we will instead need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include:</p> <ul style="list-style-type: none"> ■ Meeting with senior managers across the Authority; ■ Review of minutes and internal reports; ■ Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.
<p>Concluding on VFM arrangements</p>	<p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p>
<p>Reporting</p>	<p>We have completed our initial VFM risk assessment and have not identified any significant VFM risks. We will update our assessment throughout the year should any issues present themselves and report against these in our ISA260. On the following page, we report the results of our initial risk assessment.</p> <p>We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion.</p> <p>The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.</p>



Significant VFM Risks

Those risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

VFM Risk 1

■ Risk

The Authority's budget for 2017/18 will be presented to the Council in March 2017, to include individual proposals for the delivery of the overall savings requirement. In addition, we anticipate the budget papers will identify further savings required over the period 2018/19 and 2019/20 to address future reductions to local authority funding alongside service cost and demand pressures. As a result, the need for savings will continue to have a significant impact on the Authority's financial resilience.

As part of its response to reductions in central government funding, the Authority has demonstrated a commitment to identifying new income streams. This has included the establishment of commercial projects such as the construction and operation of a solar farm and the delivery of housing for private rental.

■ Approach

As part of our additional risk based work, we will review the controls the Authority has in place to identify the need for financial savings and to deliver these. This will include considering whether the Medium Term Financial Plan has duly taken into consideration factors such as funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors.

We will also review the way in which the Authority monitors the delivery of income from commercial projects, in particular those that have been recently implemented and the extent to which these have met expectations and contributed towards the budget.

Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2016/17 have not yet been confirmed.

Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are:

- The right to inspect the accounts;
- The right to ask the auditor questions about the accounts; and
- The right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the PSAA's fee scales.

We have one question in progress for 2015/16. As discussed with the audit committee previously, the Authority is awaiting a response from the Information Commissioner about information requested by the elector.

Our audit team

Our audit team will be led by Ian Pennington, supported by Mark Breese, which will ensure both an element of continuity and fresh perspective. Appendix 2 provides more details on specific roles and contact details of the team.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our communication outputs are included in Appendix 1.

Independence and Objectivity

Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

Audit fee

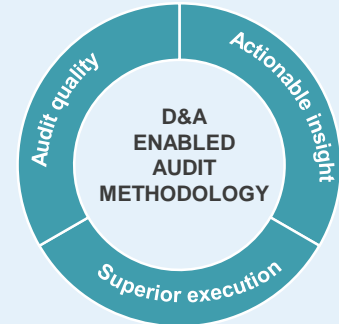
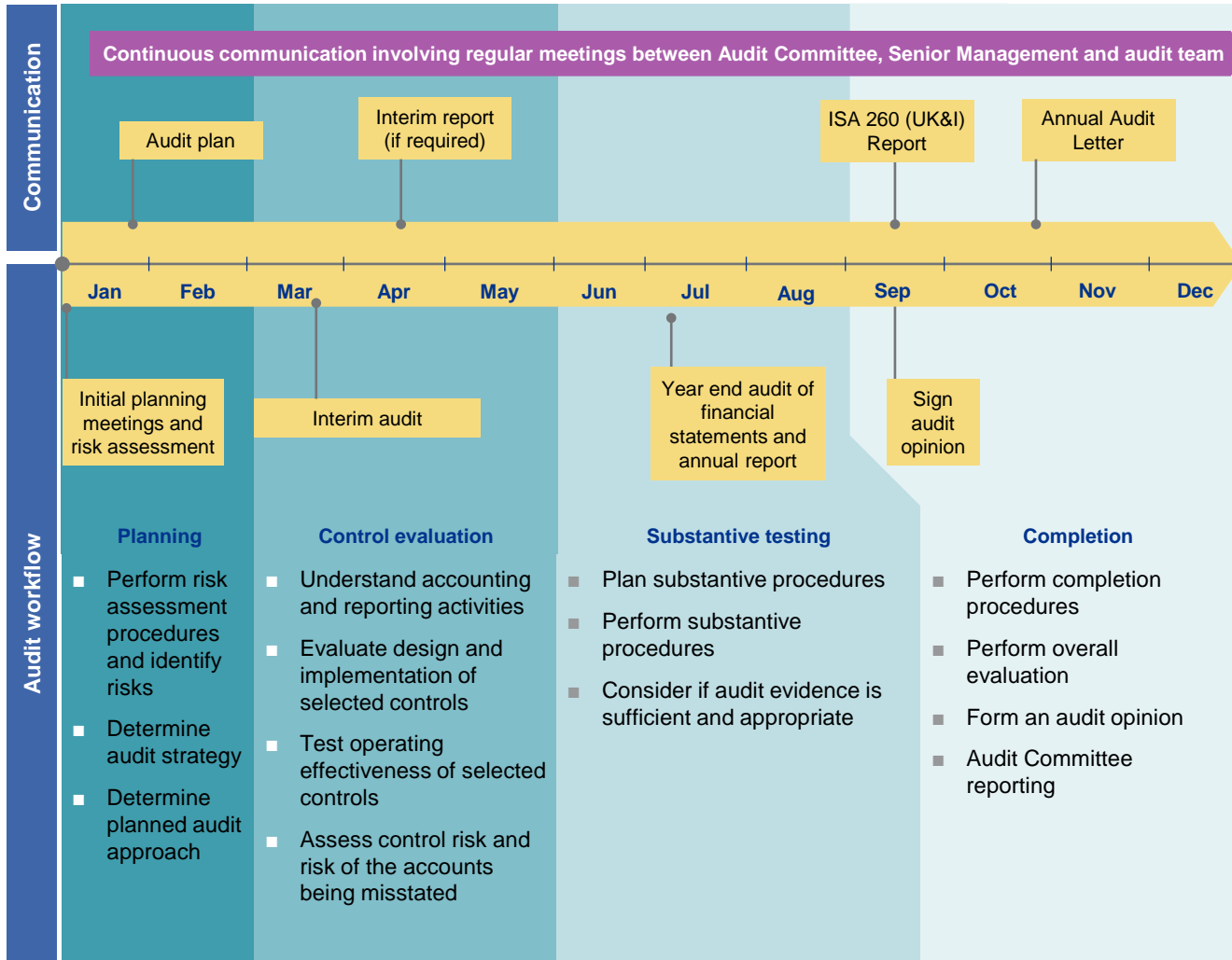
Our Audit Fee Letter 2016/2017 presented to you in April 2016 first set out our fees for the 2016/2017 audit. This letter also sets out our assumptions.

The planned audit fee communicated in this letter for 2016/17 was £117,119. This fee includes our work on the VFM conclusion and our audit of the Authority's financial statements.

There will be a small additional fee charged as a result of the preparation of consolidated financial statements and the additional audit work required in relation to this. In 2015/16 this was £815. The fee communicated also did not include the audit of the Authority's wholly owned subsidiary (NuPlaceLtd). In 2015/16 this was £9,850. We expect the 2016/17 fee for both the additional consolidation work, and audit of NuPlaceLtd to be consistent with the prior year. We will agree any additional fee in relation to costs associated with this extra work with management, and with the PSAA. Any changes in fee will be communicated to the Audit Committee. This results in a total planned fee for the audit of £127,784 (2015/16 actual fee £127,784).

The planned certification fee for the Housing Benefit Grant Claim is 2016/17 is £7,155 (2015/16 £9,239).

Appendix 1: Key elements of our financial statements audit approach



Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective 'business intelligence.' Data and Analytics allows us to:

- Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.
- Focus manual procedures on key areas of risk and on transactional exceptions.
- Identify data patterns and the root cause of issues to increase forward-looking insight.

We anticipate using data and analytics in our work around key areas such as accounts payable and journals. We also expect to provide insights from our analysis of these tranches of data in our reporting to add further value from our audit.

Appendix 2: Audit team



Your audit team has been drawn from our specialist public sector assurance department. Ian and James were both part of the Telford & Wrekin Council audit last year, Mark joins the team as manager.



Name	Ian Pennington
Position	Director
Role	<p>Ian's role is to lead our team and ensure the delivery of a high quality, value added external audit opinion.</p> <p>Ian will be the main point of contact for the Audit Committee and Corporate Directors.</p>
Phone	0292 046 8087
Email	ian.pennington@kpmg.co.uk



Name	Mark Breese
Position	Manager
Role	<p>Mark will provide quality assurance for the audit work and lead on any technical accounting and risk areas.</p> <p>Mark will work closely with Ian to ensure we add value and will liaise with the Assistant Director: Finance, Audit and Information Governance, and other Directors.</p>
Phone	0121 232 3250
Email	mark.breese@kpmg.co.uk



Name	James Keen
Position	Assistant Manager
Role	<p>James will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.</p>
Phone	0121 232 3268
Email	james.keen@kpmg.co.uk

Appendix 3: Independence and objectivity requirements

Independence and objectivity

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standards require us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Further to this auditors are required by the National Audit Office's Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportional in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA's Terms of Appointment includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of PSAA audit work should not take part in political activity.

- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the PSAA's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Terms of Appointment.

Confirmation statement

We confirm that as of 19 January 2017 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.



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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.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, 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.

TELFORD & WREKIN COUNCIL

AUDIT COMMITTEE – 31 JANUARY 2017

CABINET – 23 FEBRUARY 2017

COUNCIL – 2 MARCH 2017

2017/18 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 2016/17 and details the Treasury Strategy recommended to be adopted for 2017/18. The approach that the Council has been pursuing in recent years to treasury management of limiting investments in third parties is beneficial in the current interest rate climate and very importantly reduces the Council's exposure to counterparty risk at a time when there is still uncertainty about the financial robustness of some financial institutions. Maintaining high levels of very cheap temporary debt has generated surplus treasury management returns of more than £8m in recent years which has reduced the impact of Government cuts to the Council's grants and therefore helped to protect front line services. At some point the Council will need to lock in to fixed-term interest rates to reduce the exposure to future interest rate increases. However, the Council's budget proposals issued for consultation in January 2017 include allowance for locking in all current and anticipated debt at fixed interest rates that are higher than current PWLB rates for any duration (from 1 year to 50 years) and therefore the Council is very well placed to start to lock in to longer term fixed rates and will do so as soon as our external treasury management advisors indicate that the Council should start this process. The Council receives regular advice from Arlingclose who are a firm of expert advisors specialising in all aspects of local government treasury management and we act in accordance with the advice received.

The report also sets out expected debt levels. We have an excellent track record of complying with all the prudential indicators and limits agreed by Council and are operating well within the overall approved credit ceiling. The proportion of the Council's net revenue budget used to service debt repayment is 6.9% in the current financial year. This compares to 10% for the average unitary authority (almost half as much again compared to the position at Telford and Wrekin). The Council has increased debt levels in recent years as it follows a more commercial approach. This has included investment in NuPlace which provides high quality homes for rent from a reliable landlord, mainly at market rent levels and an expansion of the Property Investment Portfolio. These investments are expected to bring long term capital growth which will strengthen the Council's balance sheet as well as generating revenue returns well in excess of the associated debt charges. They will also bring other direct and indirect financial and other benefits to the residents of the Borough including additional income from council tax, business rates and new homes bonus, as well as protecting and creating jobs for local people. The Council's solar farm which generates an index linked surplus of around £200k pa after all

costs was also funded from borrowing, the surplus again being used to help support front line services.

This report and the Prudential Indicators report which will be considered by Cabinet on 23 February and Council on 2 March set out our overall approach to treasury management and the controls that are put in place to ensure that council taxpayers interests are protected and risks are managed as effectively as possible.

2016/17 Treasury Management Update

The treasury portfolio at the end of December showed overall net indebtedness of £179.5m (borrowing: £192.7m less investments: £13.2m). Base rates were reduced to 0.25% in August with the next move being dependent on how the economy responds to the uncertainties of Brexit and the extent to which the Bank of England will be tolerant of excessive levels of inflation.

The borrowing strategy for 2016/17 is to take new borrowing within shorter maturities before gradually lengthening maturities. Also to take advantage of longer term loans when the opportunity presents itself. To date, part of our EIP PWLB loans have matured and 3 new loans totalling £15m have been taken. Further, three of our LOBO's with Barclays Bank have been converted to maturity loans. Short term borrowing has been used to fund short term cash flow requirements and take advantage of low interest rates.

As referred to above, a large part of the Council's total existing borrowing and planned further borrowings relates to the funding of income earning investments which are budgeted to generate returns in excess of the annual debt charges and other operating costs.

Commercial Schemes within External Borrowing

	31/03/16 Actual £m	31/03/17 Estimate £m	31/03/18 Estimate £m	31/03/19 Estimate £m	31/03/20 Estimate £m
External Borrowing from 5.1.3	164.098	195.207	235.023	258.734	272.643
Housing Investment programme - Houses	9.674	19.565	38.080	54.822	60.642
Solar Farm	3.710	3.710	3.710	3.710	3.710
PIP	2.842	13.459	23.098	30.204	35.704
External Borrowing excluding Commercial Schemes	147.872	158.473	170.135	169.998	172.587

The overall investment strategy for 2016/17 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 2016 was 0.29% compared to a benchmark return for the period of 0.24%. 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 £39.8m in 2017/18

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.

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 2016/17. Overall the policy is broadly in line with that previously agreed, however it is being extended to include the purchase of investment properties. There will be a lower mrp charged on investment properties for 2017/18 onwards to reflect the nature of the asset.

The report also sets the Prudential Indicators associated with Treasury Management for 2017/18.

It should be noted that there may be some changes to the Treasury Strategy before it is presented to Cabinet on 23 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 2017/18 together with the associated treasury Prudential Indicators and the Minimum Revenue Provision Statement, which will apply from 2016/17 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. 2016/17 TREASURY MANAGEMENT UPDATE

4.1 CURRENT PORTFOLIO POSITION

	31 March 16	31 Dec 16
	Principal	Principal
	£m	£m
Fixed Rate Borrowing – PWLB	28.519	43.638
Fixed Rate Borrowing – LOBO	60.000	45.000
Fixed Rate Borrowing – Market	0.000	15.000
Variable Rate Borrowing - market	<u>75.579</u>	<u>89.078</u>
Total Debt	164.098	192.716
Investments - in-house	<u>10.689</u>	<u>13.255</u>
Total Investments	10.689	13.255
Net Indebtedness	153.409	179.461

4.2 INTEREST RATES

Base rates were reduced to 0.25% in August. The Bank of England Quantitative Easing programme was also increased to £435bn. The next move in the base rate will be largely dependent on how the economy responds to the uncertainties of 'Brexit' and the extent to which the Bank of England will tolerate higher levels of inflation following the fall in the value of sterling after the referendum vote and the continuing weakness of the currency.

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 2016/17 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 2016 (previous Member update) and 31 December 2016, £145.5m of temporary loans have been raised in order to fund short-term cash flow requirements at various points. Interest rates have ranged from 0.19% to 0.50% - interest rates have remained fairly low during this time. £89.0m of this temporary borrowing was outstanding at 31 December 2016. The following longer term borrowing has been undertaken in the year to date with a view to slowly locking in to some longer-term fixed interest rates.

Date	Loan	Period	Amount	Interest Rate
20/6/06	PWLB EIP	10 years	£5,000,000	1.45%
20/6/06	PWLB EIP	19 years	£5,000,000	1.98%
5/7/16	PWLB EIP	15 years	£5,000,000	1.44%

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 £1,426m of investments were placed between 1 June and 31 December. Interest rates have ranged from 0.15% to 0.45% and periods ranged from overnight deposits to 20 days. £13.255m in house temporary investments were held at 31 December 2016.

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 deposits with financial institutions should not be placed for longer than 13 months.

Overall the weighted average return on all internal investments for the year to date was 0.29% compared to a benchmark return for the period of 0.24%.

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 £15.0m for the current year with any one counterparty. At the end of December the greatest exposure with a single counterparty was £6.2m with Lloyds Bank (47% 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.

There have been no drawdowns in the year to date for 2016/17. A lease drawdown is anticipated in March.

5. TREASURY STRATEGY FOR 2017/18 to 2019/20

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 2017/18
- Annual Investment Strategy for 2017/18
- Prudential Indicators for 2017/18, 2018/19, 2019/20 and 2020/21
- 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: The major external influence on the Authority's treasury management strategy for 2017/18 will be the UK's progress in negotiating a smooth exit from the European Union. Financial markets, wrong-footed by the referendum outcome, have since been weighed down by uncertainty over whether leaving the Union also means leaving the single market. Negotiations are expected to start once the UK formally triggers exit in early 2017 and last for at least two years. Uncertainty over future economic

prospects will therefore remain throughout 2017/18.

The fall and continuing weakness in sterling and the near doubling in the price of oil in 2016 have combined to drive inflation expectations higher. The Bank of England is forecasting that Consumer Price Inflation will breach its 2% target in 2017, the first time since late 2013, but the Bank is expected to look through inflation overshoots over the course of 2017 when setting interest rates so as to avoid derailing the economy.

Initial post-referendum economic data showed that the feared collapse in business and consumer confidence had not immediately led to lower GDP growth. However, the prospect of a leaving the single market has dented business confidence and resulted in a delay in new business investment and, unless counteracted by higher public spending or retail sales, will weaken economic growth in 2017/18.

Looking overseas, with the US economy and its labour market showing steady improvement, the market has priced in a high probability of the Federal Reserve increasing interest rates in December 2016. The Eurozone meanwhile has continued to struggle with very low inflation and lack of momentum in growth, and the European Central Bank has left the door open for further quantitative easing.

The impact of political risk on financial markets remains significant over the next year. With challenges such as immigration, the rise of populist, anti-establishment parties and negative interest rates resulting in savers being paid nothing for their frugal efforts or even penalised for them, the outcomes of the French presidential and general elections (April – June 2017) and the German federal elections (August – October 2017) have the potential for upsets.

Credit outlook: Markets have expressed concern over the financial viability of a number of European banks recently. Sluggish economies and continuing fines for pre-crisis behaviour have weighed on bank profits, and any future slowdown will exacerbate concerns in this regard.

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 European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. 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 continue to fall.

Interest rate forecast: The Authority's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.25% during 2017/18. The Bank of England has, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further falls in the Bank Rate look less likely. Negative Bank Rate is currently perceived by some policymakers to be counterproductive but, although a low probability, cannot be entirely ruled out in the medium term, particularly if the UK enters recession as a result of concerns over leaving the European Union.

Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50. Long-term economic fundamentals remain weak, and the quantitative easing (QE) stimulus provided by central banks globally has only delayed the fallout from

the build-up of public and private sector debt. The Bank of England has defended QE as a monetary policy tool, and further QE in support of the UK economy in 2017/18 remains a distinct possibility, to keep long-term interest rates low.

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 2020/21. 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:

	31/03/16 Actual £m	31/03/17 Estimate £m	31/03/18 Estimate £m	31/03/19 Estimate £m	31/03/20 Estimate £m
Capital Financing Requirement	335.586	377.249	417.539	438.789	450.432
Less: Other long term liabilities (e.g. PFI)	-57.813	-58.260	-56.408	-54.167	-51.848
Borrowing CFR	277.773	318.989	361.131	384.622	398.584
Less: External Borrowing	-164.098	-195.207	-235.023	-258.734	-272.643
Internal Borrowing	113.675	123.782	126.108	125.888	125.941
Less: Usable reserves	-62.161	-62.161	-62.161	-62.161	-62.161
Less: Working capital	-43.618	-61.621	-63.947	-63.727	-63.780
Investments	7.896	0.000	0.000	0.000	0.000

Commercial Schemes within External Borrowing

External Borrowing from Above	164.098	195.207	235.023	258.734	272.643
Housing	9.674	19.565	38.080	54.822	60.642

Investment programme – Houses					
Solar Farm	3.710	3.710	3.710	3.710	3.710
PIP	2.842	13.459	23.098	30.204	35.704
External Borrowing excluding Commercial Schemes	147.872	158.473	170.135	169.998	172.587

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 Housing Investment Programme through NuPlace together with other commercial investments from 2015/16 onwards. The anticipated income from these projects is projected to generate a surplus after funding the debt and operational costs which will be used to support front line services. 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 £192.716 million of loans, an increase of £28.6 million on the previous year end. The Council also holds £58.260 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. 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 2017/18 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 will be required to provide bond investors with a joint and several guarantee to refund their investment in the event that the agency is unable to for any reason; 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 £45m 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. The figure at the start of the year was £60m, but Barclays Bank have converted their LOBO's (£15m) to fixed rate maturity loans at no cost to the council. £40m of the remaining LOBOs have options during 2017/18, 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 £45m. 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 £30 million, and levels are expected to remain around the same levels in the forthcoming year.

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 2016 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 the 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 £62 million on 31st March 2017 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, which is well within the limit. 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 2017/18 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 2017/18: 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 2017/18 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. Broadly in line with option 3.

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). MRP for borrowing in respect of NuPlace is set at £0 due the expectation that the value will appreciate over time and that the houses will all eventually be sold and the Council will apply the capital receipts arising to reduce the Capital Financing Requirement. Along the same lines as NuPlace, MRP for borrowing in respect of Investment Properties will be calculated as 20% of the value of the annuity MRP to reflect that although there will normally be capital appreciation, a downturn in the economy could result in reductions in value of investment properties

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 2017.

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

Bernie Morris, Finance Manager (01952) 383702
Ken Clarke, Assistant Director: Finance & Human Resources (01952)
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	%	31/3/17 Estimate £m	31/3/18 Estimate £m	31/3/19 Estimate £m	31/3/20 Estimate £m	31/3/21 Estimate £m
External Borrowing:							
Fixed Rate – PWLB	43.6	17	85.2	125.0	148.7	162.6	186.5
Fixed Rate – Market	60.0	24	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	89.0	36	50.0	50.0	50.0	50.0	50.0
Total External Borrowing	192.6	77	195.2	235.0	258.7	272.6	296.5
IFRS Long Term Liabilities:							
PFI	57.3	23	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	250.8	100	253.4	291.4	312.9	324.4	347.1
Investments:							
<i>Managed in-house</i>							
Short-term monies (Deposits/ monies on call /MMFs)	13.3	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	13.3	100	0.0	0.0	0.0	0.0	0.0
(Net Borrowing Position)/ Net Investment position	(237.5)		(253.4)	(291.4)	(312.9)	(324.4)	(347.1)

Appendix C

Prudential Indicators 2017/18 – 2020/21

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 2016/17, 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	16/17 Approved £m	16/17 Revised £m	17/18 Estimate £m	18/19 Estimate £m	19/20 Estimate £m	20/21 Estimate £m
Total	98.895	87.083	76.843	52.122	28.522	37.170

**if applicable*

3.2 Capital expenditure will be financed or funded as follows:

Capital Financing	16/17 Approved £m	16/17 Revised £m	17/18 Estimate £m	18/19 Estimate £m	19/20 Estimate £m	20/21 Estimate £m
Capital receipts	5.814	7.398	7.865	12.635	10.800	9.550
Government Grants	29.491	33.835	16.677	12.846	3.813	3.813
Revenue / External contributions	11.239	6.845	12.485	2.930	0.000	0.000
Total Financing	46.544	48.078	37.027	28.411	14.613	13.363
Supported borrowing	0.000	1.275	0.000	0.000	0.000	0.000
Unsupported borrowing	52.351	37.730	39.816	23.711	13.909	23.807
Total Funding	52.351	39.005	39.816	23.711	13.909	23.807
Total Financing and Funding	98.895	87.083	76.843	52.122	28.522	37.170

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	16/17 Approved %	16/17 Revised %	17/18 Estimate %	18/19 Estimate %	19/20 Estimate %	20/21 Estimate %
Total	4.96	3.72	6.60	8.15	8.47	8.44

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	16/17 Approved £m	16/17 Revised £m	17/18 Estimate £m	18/19 Estimate £m	19/20 Estimate £m	20/21 Estimate £m
Total CFR	403.249	377.249	417.539	440.696	451.724	474.248

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 31/03/16	£m
Borrowing	164.098
Other Long-term Liabilities	57.813
Total	221.911

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	16/17 Approved £	17/18 Estimate £	18/19 Estimate £	19/20 Estimate £	20/21 Estimate £m	21/22 Estimate £m
Increase in Band B Council Tax	27.01	2.18	12.88	24.06	43.28	63.52

7.2 The increase in Band B council tax reflects the increases in the provision for Capital Financing Charges of £3.970m by 2021/22 to undertake additional borrowing of £79.880m 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	16/17 Approved £m	16/17 Revised £m	17/18 Estimate £m	18/19 Estimate £m	19/20 Estimate £m	20/21 Estimate £m
Borrowing	330	330	350	370	380	410
Other Long-term Liabilities	62	62	61	60	59	58
Total	392	392	411	430	439	468

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	16/17 Approved £m	16/17 Revised £m	17/18 Estimate £m	18/19 Estimate £m	19/20 Estimate £m	20/21 Estimate £m
Borrowing	310	310	330	350	360	390
Other Long-term Liabilities	60	60	60	59	58	57
Total	370	370	390	409	418	447

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
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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	16/17 Estimated £m	17/18 Authorised £m	18/19 Authorised £m	19/20 Authorised £m	20/21 Authorised £m
Outstanding Borrowing (at nominal value)	195.207	235.023	258.734	272.643	296.450
Other Long-term Liabilities (at nominal value)	58.260	56.408	54.167	51.848	50.640
Gross Debt	253.467	291.431	312.901	324.491	347.090

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 31/03/16 %	16/17 Approved %	16/17 Revised %	17/18 Estimate %	18/19 Estimate %	19/20 Estimate %	20/21 Estimate %
Upper Limit for Fixed Interest Rate Exposure	100	100	100	100	100	100	100
Upper Limit for Variable Interest Rate Exposure	30	30	70	70	70	70	70
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 31/03/16) %	Lower Limit for 17/18 %	Upper Limit for 17/18 %
under 12 months	46 (46)	0	70
12 months and within 24 months	1 (1)	0	30
24 months and within 5 years	3 (2)	0	50
5 years and within 10 years	3 (0)	0	75
10 years and within years	2 (0)	0	75
years and within 30 years	0 (0)	0	75
30 years and within 40 years	10 (12)	0	100
40 years and within 50 years	14 (16)	10	100
50 years and above	21 (24)	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 has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments would be assigned a score based on their perceived risk.

	Target
Portfolio average credit score	6 or lower, which is equivalent to a credit rating of 'A' or higher

- 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	16/17 Approved %	16/17 Revised %	17/18 Estimate %	18/19 Estimate %	19/20 Estimate %	20/21 Estimate %
	95	95	95	95	95	95

Appendix D – Arlingclose Economic & Interest Rate Forecast November 2016

Underlying Assumptions:

- The medium term outlook for the UK economy is dominated by the negotiations to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU and other countries.
- The global environment is also riddled with uncertainty, with repercussions for financial market volatility and long-term interest rates. Donald Trump's victory in the US general election and Brexit are symptomatic of the popular disaffection with globalisation trends. The potential rise in protectionism could dampen global growth prospects and therefore inflation. Financial market volatility will remain the norm for some time.
- However, following significant global fiscal and monetary stimulus, the short term outlook for the global economy is somewhat brighter than earlier in the year. US fiscal stimulus is also a possibility following Trump's victory.
- Recent data present a more positive picture for the post-Referendum UK economy than predicted due to continued strong household spending.
- Over the medium term, economic and political uncertainty will likely dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment.
- The currency-led rise in CPI inflation (currently 1.0% year/year) will continue, breaching the target in 2017, which will act to slow real growth in household spending due to a sharp decline in real wage growth.
- The depreciation in sterling will, however, assist the economy to rebalance away from spending. The negative contribution from net trade to GDP growth is likely to diminish, largely due to weaker domestic demand. Export volumes will increase marginally.
- Given the pressure on household spending and business investment, the rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes to the negative effects of Brexit on economic activity and, ultimately, inflation.
- Bank of England policymakers have, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further monetary loosening looks less likely..

Forecast:

- Globally, the outlook is uncertain and risks remain weighted to the downside. The UK domestic outlook is uncertain, but likely to be weaker in the short term than previously expected.
- The likely path for Bank Rate is weighted to the downside. The Arlingclose central case is for Bank Rate to remain at 0.25%, but there is a 25% possibility of a drop to close to zero, with a very small chance of a reduction below zero.
- Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50.

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 2017/18 onwards.

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limit %/£m	Maximum Group Limit (if applicable) %/£m	Council Holding At 31/12/16 £m
Term Deposits / CDs / Call Accounts	UK	Santander UK Plc (Banco Santander Group)	15	15	2.81
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	6.20
Term Deposits / CDs / Call Accounts	UK	Barclays Bank Plc	15	15	0
Term Deposits / CDs / Call Accounts	UK	HSBC Bank Plc	15	15	0
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	4.22
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 2016.*

SUMMARY OF INVESTMENTS**TOTAL RISK PER COUNTERPARTY AS AT 31 DECEMBER 2016**

	CREDIT RATING	TOTAL £000
<u>Fixed Deposits</u>		
Svenska Handelsbanken	Sweden AAA F1+ AA- 2	4,216
Lloyds	UK AAA F1 A+ 5	6,195
Santander	UK AAA F1 A 2	2,811
TOTAL- CASH DEPOSITS		13,222
Shropshire Waste Management		33
TOTAL INVESTMENTS		13,255

<u>SUMMARY BY SOVEREIGN RATING</u>	<u>£000</u>	<u>%</u>
UK AAA	9,039	68
Sweden AAA	4,216	32
Total	13,255	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
- Gruppo 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's 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.
Quantitative Easing	This is where the government buy back their own gilt issuance to effectively pump money into the financial markets of the economy.



1 PURPOSE

- 1.1 To update members on the work of Internal Audit during quarters two and three – July – December 2016.
- 1.2 For members to consider and approve the Internal Audit Charter 2017/18.

2 RECOMMENDATIONS

- 2.1 That members of the Audit Committee note the information contained in this report.
- 2.2 That members of the Audit Committee approve the Internal Audit Charter 2017/18 attached as Appendix E.

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 update for 2016/17 in respect to quarters two and three – July – December 2016 and the updated Internal Audit Charter for 2017/18 for approval by the Committee.

4 PREVIOUS MINUTES

- 4.1 Audit Committee 30th June 2015 – Internal Audit & Information Governance Annual Report 2014/15 and Internal Audit Quarter 4 Update and 2015/16 Internal Audit Plan and IG Work Programme.
Audit Committee 15th September 2015 – 2015/16 Internal Audit Quarter 1 Update report and Information Governance Update April to August 2015.
Audit Committee 26th January 2016 – 2015/16 Internal Audit Quarters 2 & 3 Update Report and External Assessment in respect to the Public Sector Internal Audit Standards
Audit Committee 30th June 2016 – 2015/16 Internal Audit Quarter 4 Update Report and Internal Audit Plan 2016/17 and Information Governance Work Programme 2016/17
Audit Committee 20th September 2016 – Internal Audit Quarter 1 Update and IG update to July 2016.

5 QUARTERS 2 and 3 - INTERNAL AUDIT UPDATE

- 5.1 This report provides information on the work of Internal Audit from 1st July – 31st December 2016 and provides an update on the progress of previous audit reports issued (April 2013 to June 2016).

5.2 The key focus for the team during quarters two and three has been the 2016/17 planned audits including the fundamental systems audits. Unfortunately the long term staff absence continued until early October which has affected the extent of the work undertaken but the quarterly plans were adjusted as was the annual plan before the financial year started. The IT audit work was awarded mid-July to TIAA and further general work was commissioned to assist with the cover for the long term absence. Work has also commenced on the longer term arrangements for IT and general audit provision when the current extended contract comes to an end on 31st March 2017.

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 April 2013 to June 2016 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
- v) **Appendix E** – Internal Audit Charter 2017/18

5.4 Appendix A shows 30 reports were issued in quarters two and three. 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
Making Safeguarding Personal	-15%	Over estimate of time allocated in the plan
The Bridge School	-20%	School well prepared
Aqueduct Primary School	-12%	School well prepared
Supervision Policy Review	+26%	Testing took longer as had to visit Managers as unwilling to share information electronically
St Peters & St Paul's RC Primary School	-15%	School well prepared
Abraham Darby Leisure Centre	+50%	Original allocation insufficient and then additional work on generic users and staff TLC cards
Children's Brokerage – Foster Care	+57%	Testing had to be undertaken with Brokerage staff and Social workers. Also some delay in receiving information and comments on report.
Leavers Checklist	-22%	Reviewed and added to work already undertaken by HR so less time than originally allocated.
Support Planning	-37.5%	Information for testing was provided by the service area which meant that testing did not take as long as expected and time allocated.
Children's Arrangement Orders	+33%	Lack of clarity on responsibilities and more checks required than had been anticipated in original allocation.
Council tax/NNDR	-14%	Economies due to doing two systems and processes together.
Events audit	-12%	Reduced scope due to many being just contracts.
Temporary Accommodation	-25%	Not as much testing undertaken as planned due to lack of controls in place.
Assistive Technology	+18.3%	Testing needed to be completed with staff due to access to IT system which increased the amount of time spent on testing

The reasons for the variances are as explained above and the scopes and time allocations for remaining 2016/17 audits have been informed by this information and will be closely monitored. The information will also be used to inform 2017/18 planning.

5.5 From Appendix A there were 9 Amber reports issued during quarters two and three. A summary of each report is provided in Appendix D. For these Amber reports management actions and time scales were agreed to implement the recommendations. Due to the time lapse in reporting the information to the Audit Committee some areas have already had their follow up's completed and improvements have been achieved. These include Community Support Finance (now Green), Abraham Darby Leisure Centre (now Yellow) and Treasury Management (now Green). Follow ups are in progress for the other Amber reports and will be reported in the Committee in June. Otherwise Internal Audit is confident that management will continue to implement the recommendations for these Amber/improving reports and all other agreed reports 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	61	Continued advice and guidance sought due to more commercial approach and staff new to roles and responsibilities due to restructures
Arthog	13	Establishment visit requires 2 staff and increased income areas
Benefits	12	Fundamental audit
Cash collection	22	Fundamental audit
Council tax /NNDR	28	Fundamental audit
Follow ups		Various follow ups and due to re-organisations often new staff are now responsible which increases the time taken to follow up.
Sales Ledger	16	Fundamental audit

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.	Setting up Home Grant	Amber	Amber	Follow ups have been pursued for a while with various correspondences with the service area about restructure and changes to processes. A meeting with the service area was held on 21/12/16 where it was agreed that a new audit will take place in June 2017 as new processes/policies will be coming into force from March/April 2017.
2.	Transport Adults	Amber	Amber	Follow up completed March 2016 and second follow up commenced June 2016. Chased responses from service area but postponed due to consultation on transport policy changes. Meeting arranged for January 2017 to discuss status of agreed recommendations.

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.

Quality Assurance and Improvement Programme

- 5.9 The SDM has continued to undertake quarterly spot checks of audit files to review compliance to the PSIAS alongside the normal quality review process applied to all audit assignments. No issues were identified in quarters 1 and 2 (quarter 3 due by end January 2017).
- 5.10 Members are aware that the External Assessment was undertaken during week commencing 9th January 2017. The results of this are in the process of being agreed. When agreed the report will be circulated to the members of the Audit Committee and Leader (lead member for Governance and Audit). They will be included on the agenda for the June Audit Committee. The SDM will provide a verbal update on the assessment outcome to the January meeting.

6 INTERNAL AUDIT CHARTER 2017/18

- 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 2016/17 Charter has been reviewed and updated for 2017/18 to reflect the following:
- a) Further updates to the Public Sector Internal Audit Standards;
 - b) Formalisation to ensure transparency of how potential conflicts in respect to the audit of non audit functions that the Audit SDM (CAE) is responsible for are managed ;
 - c) The resources available for 2017/18; and
 - d) Other minor changes to reflect the changing organisation.
- 6.3 An updated Charter will be presented to the June 2017 Audit Committee to reflect the changes arising from the restructure due to commence in April 2017.

7 OTHER CONSIDERATIONS

AREA	COMMENTS
Equal Opportunities	All members of the Audit Team have attended equal opportunities/ diversity training. If any such issues arose during any work the appropriate manager would be notified.
Environmental Impact	All members of the Audit Team are environmentally aware and if any issues were identified they would be notified to the appropriate manager.
Legal Implications	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. 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.
Links with Corporate Priorities	All aspects of the Audit teams work support good governance which underpins the achievement of the Council's objectives and priorities.
Risks and Opportunities	All aspects of the Audit teams work supports managers and the Council to identify and manage their risks and opportunities.

Financial Implications	Financial monitoring is currently showing that Audit, IG, Insurance & Investigations are operating within budget for 2016/17. There are therefore no financial implications arising from adopting the recommendations of this report.
Ward Implications	The work of the Audit team encompasses all the Council's activities across the Borough and therefore it operates within all Council Wards.

8 BACKGROUND PAPERS

Annual Audit Plan 2016/17 and Charter
Public Sector Internal Audit Standards – Applying the IIA International Standards to the UK
Public Sector 2013 and updated January 2017
CIPFA Local Government Application Note – April 2013
Accounts and Audit Regulations – 2015

Report by Jenny Marriott, Audit, Information Governance. Insurance & Investigations SDM.
Telephone: 383101 and Tracey Drummond Principal Auditor. Telephone 383105

FINAL REPORTS ISSUED QUARTERS TWO AND THREE – JULY TO DECEMBER 2016

Audit Area	Opinion	Follow Up Due	Days allocated	Days Taken	Variance %
Making Safeguarding Personal	Yellow	January 2017	8	6.8	-15%
The Bridge School	Yellow	January 2017	8	6.4	-20%
Community Support Finance	Amber	October 2016	9	9	0%
Aqueduct Primary	Yellow	January 2017	8	7	-12%
Supervision Policy Review	Amber	January 2017	6.75	8.5	+26%
SS Peter & Paul RC Primary School	Yellow	January 2017	8	6.8	-15%
Core Groups	Amber	October 2016	7	7.12	+1.7%
West Road & Petty Cash	Amber	October 2016	From Fraud & Compliance	3	N/A
Abraham Darby Leisure Centre	Amber	October 2016	8	16	+50%
Children's Brokerage – Foster Care	Amber	November 2016	10	15.7	+57%
Leavers Checklist	Yellow	January 2017	5	3.9	-22%
Health & Safety Processes: Corporate H&S Team	Amber Yellow	End of November 2016	11	11.8	+7%
Support Planning	Yellow	March 2017	12	7.5	-37.5%
Children's Arrangement orders	Amber	December 2016	6	8	+33%
Treasury Management	Amber	17/18	10	9.4	-6%
Church Aston Infant School	Yellow	April 2017	8.25	4.97	-39.75%
Council Tax & NNDR	Yellow	17/18	38	32.5	-14%
Sickness Monitoring	Yellow	March 2017	7	6.9	-1.4%
St Lawrence C E Primary School	Yellow	April 2017	8	7.86	-1.75%
Events	Yellow	April 2017	4	3.5	-12%
St Peter's Edgmond	Yellow	April 2017	8.25	6.81	-17.45%
Temporary accommodation	Amber	Jan- Mar 2017	8	6	-25%
Assistive Technology	Yellow	April-June 2017	6	7.1	+18.3%
Corporate lease	Yellow	April – June 2017	8	12.2	+52.2%
Lilleshall Primary	Yellow	April – June 2017	8	7.7	-3.75%

Cash Collection	Yellow	N/A Carried out as part of next annual audit.			
ICT Back Up and Storage	Yellow	June 2017	7	7	0
Apley Wood Primary	Yellow	April – June 2017	8	6.43	-19.64%
Oakengates Leisure Centre	Yellow	April – June 2017	9.75	10.2	+4.6%
Section 106 Agreements	Green	August 2017	7	6.55	-6.4%

* Work undertaken by specialist third party contractor under framework contract

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

Audit Area	Days
Abraham Darby Leisure Centre	2
Additional Payment to Foster Carers	7
Advice & Consultancy	61
AGS Certification Assurance 2016-17	3
Apley Wood Primary	6
Arthog	13
Assistive Technology	7
Benefits 2016-17	12
Cash Collection 2016-17	22
Catering – Commercial Nurseries	1
Children’s Brokerage (Link to Foster Care)	1
Children’s Savings	3
Church Aston School	5
Community Support – Finance Audit	1
Core Group	1
Corporate Leases (Including Nursery Schools)	10
Council Tax / NNDR 2016-17	28
Employment Code of Practice Compliance	1
Events Management	4
External IT Audit, Contract Management & Procurement	3
Follow ups	15
General Ledger 2016-17	8
GPC & Procurement – Follow up	1
Health & Safety	2
Inter agency communication in relation to missing children	1
Investigation into alleged theft	2
Joint Commissioning & Information Sharing (Review of Processes)	1
Leaver Checklist	1
Lilleshall Primary School	8
Local transport grant	2
My Choices	2
My Options	3
National Fraud Initiative	6
Newdale School Follow Up	1
Newport Infants School	6
Nuplace	9
Oakengates Leisure Centre	10
PSE Upgrade	1
PSP Register (management of personal data)	6
Sales Ledger 2016-17	16
Section 106 Agreements	6
Section 17 payments	1
Shortwood School	7
Sickness Monitoring review	4
St Lawrence Primary School	2

St Peters & Pauls RC School	2
St Peters Edgmond	7
Support Planning	7
Teagues Bridge Primary School	10
Temporary Accommodation	4
The Place - Follow up	2
Town Park - Follow up	2
Transition Process	9
Treasury 2016-17	10
Troubled Families Grant	1
Wombridge School Follow Up	1
Wrekin View School Follow Up	2

Audit	Original Opinion	Updated Opinion	Previous Comments	Status as at 31.12.16
Abacus system & Abacus concerns	Amber Red	Amber/ Yellow	Regular updates to Audit Committee - September 2015 and January 2016.	Verbal update to June 2016 Committee and further report due to September 2016 meeting (see Appendix E).
Digitisation report	Yellow	Green	Follow up due September 2015	Follow up complete – now a green grading.
Section 17	Amber	Yellow	Follow up due November 2015 Second Follow up due May 2016	2nd Follow up complete and moved to Yellow, new processes are being put into place therefore this will be reviewed again in March 2017 once they have had chance to embed
ICT Incident and Capacity Management	Yellow	Green	Follow up due September 2015	Follow up complete – now green
Setting Up home Grant (Leaving Care)	Amber		Follow up due November 2015 but correspondence with Service area about restructure and changes to processes	Meeting with Service area 21/12/16 – agreed to undertake new audit June 2017 as new processes/policies will be coming into force from March/April 2017
Financial Assessment review	Amber	Yellow	Follow up due January 2016	2nd follow up completed November 2016. Due to change in personnel 1 of the recommendations has been delayed in its implementation so 3 rd follow up to be done in February 2017
Transport (adults)	Amber	Amber	Follow up completed March	Meeting arranged for January 2017 to discuss status of agreed recommendations. Follow up postponed due to transport consultation
Leaving care – review of process	Amber	Yellow	Follow up completed December 2016	Follow up complete remains yellow 3 rd follow up due February 2017
Procurement	Yellow		Follow up to commence March 2016	New audit to be undertaken April 2016.
GPC expenditure	Yellow		Follow up due March 2016	New audit to be undertaken 2017-18 due to change in bank
Horsehay	Yellow	Green	Follow up due April 2016	Follow up complete – now a green grading

STATUS ON FINAL REPORTS ISSUED APRIL 2013 TO JUNE 2016 AS AT 31/12/16

APPENDIX C

Audit	Original Opinion	Updated Opinion	Previous Comments	Status as at 31.12.16
Car Parking & Enforcement (Excluding Multi-Storey)	Yellow	Yellow	Follow up due June 2016	1st follow up complete remains yellow, 2 nd follow up due end of December 2016
Adult Social Care Payments	Yellow	Yellow	Follow up due April 2016	1st follow up complete remains yellow 2 nd follow up due end of December 2016
Multi Storey Car park - Southwater	Amber	Yellow	Follow up due March 2016	2 nd follow up completed December 2016 however 2 recommendations remain outstanding due to awaiting system software update and awaiting supporting evidence for recommendation 8 so 3 rd follow up to be undertaken January 2017.
Grange Park Primary School	Amber	Yellow	Follow up due February 2016	Follow up complete March 2016 some items that are outstanding but these will be superseded if the school changes to Academy status. If the school do not change then a further follow up will be undertaken July 2016. The school converted to Academy status from 1 st April 2016 so no follow up will be carried out.
Downing House (now Lakewood Court)	Amber	Yellow	Follow up due September 2016	Follow up in the process of being finalised.
Waste Quality Performance Monitoring	Yellow	Green	Follow up due June 2016	Complete now green grading
Woodlands Primary	Yellow	Green	Follow up due July 2016	Complete now green grading
The Place	Red	Green	Follow up completed April 2016 and moved to Amber.	Next follow up August 2016 – completed and finalised and has moved to Green.
ICT Risk Management	Yellow		Follow up due August 2016	1 st follow up completed Aug but remained Yellow. 2 nd follow up sent and waiting return 11/1/17
ICT Service Desk Review	Yellow		Follow up due August 2016	1 st follow up completed August but remained Yellow. 2 nd follow up due March 2017
Haughton School	Amber	Green	Follow up completed September 2016	Follow up complete now green grading
GIS Application Review	Yellow		Follow up due December 2016	Follow up sent and waiting return
Pre & Post 16 Transport for Education and Training	Amber	Yellow	Follow up due June 2016	Meeting arranged in January 2017 to discuss status of agreed recommendations. Follow up originally postponed due to transport consultation
ICT Third Party Access	Amber	Yellow	Follow up complete	Further follow up due March 2017
St Peters School, Bratton	Amber	Green	Follow up completed October 2016	Complete now green grading

STATUS ON FINAL REPORTS ISSUED APRIL 2013 TO JUNE 2016 AS AT 31/12/16

APPENDIX C

Audit	Original Opinion	Updated Opinion	Previous Comments	Status as at 31.12.16
Newdale Primary	Amber	Green	Follow up completed October 2016	Complete now green grading
Lightmoor Village Primary	Yellow	Green	Follow up completed October 2016	Complete now green grading
ICT programme & Project management	Yellow		Follow up due Sept 2016	Remains yellow. 3 rd follow up due March 2017
Town Park (including Visitor Centre)	Red	Green	Follow up due September 2016	Follow up complete now green grading
P2.net – Concerto Application Review	Yellow	Green	Follow up due Sept 2016	Follow up complete now green grading
ICT Contract Management Arrangements	Yellow	Green	Follow up due Sept 2016	Follow up complete now green grading
Business continuity	n/a		Follow up due Sept 2016	2 nd follow up due Feb 17
General Ledger	Yellow		2016-17 audit	
Contract Waivers	Yellow	Green	Follow up due October 2016	Follow up complete
Property Investment Portfolio – Review of bad debts	Yellow	Green	Follow up due October 2016	Follow up complete now green grading
Data Sharing Audit	Yellow	Green	Follow up due October 2016	Follow up complete now green grading
Captain Webb Primary	Yellow	Green	Follow up completed November 2016	Complete now green grading
Review of PCI Arrangements	Yellow	Green	Follow up due October 2016	Follow up complete now green grading
Cloud Computing	Yellow		Follow up due November 2016	Follow up complete. 2 nd follow up due March 2017
Protocol Application Review	Yellow		Follow up due November 2016	Follow up complete 2 nd follow up due February 2017
Public Health SLA's & MOUs	Yellow		Follow up due November 2016	Follow up in progress
M3 Application Review	Yellow		Follow up due November 2016	Follow up complete 2 nd follow up due March 2017
Information Security	Yellow		Follow up due November 2016	Follow up in progress
Lettings Agency/ Telford Home Finder	Yellow	Green	Follow up due November 2016	Complete now green grading

STATUS ON FINAL REPORTS ISSUED APRIL 2013 TO JUNE 2016 AS AT 31/12/16

APPENDIX C

Audit	Original Opinion	Updated Opinion	Previous Comments	Status as at 31.12.16
Wombridge Primary	Amber	Yellow	Follow up completed November 2016	2 nd follow up due February 2017
Millbrook Primary	Yellow	Green	Follow up completed December 2016	Complete now green grading
Bank Contract PIR	Yellow		N/A	
Wrekin View Primary	Amber	Yellow	Follow up completed October 2016	2 nd follow up due January 2017
Deferred Payments	Yellow		Follow up due November 2016	Follow up in progress
Direct payments follow up (Personal budgets)	Red	Yellow	Follow up due August 2016	Further follow up to be undertaken Feb 2017. Moved to a yellow grading at August follow up but also agreed that further audit to be included in 2017/18 plan.
Catering Commercial Services	Amber	Yellow	Follow up due November 2016	Follow up completed further follow up to be undertaken February 2017
Community Pride Grants	Yellow		Follow up due December 2016	Follow up in progress

AMBER REPORTS ISSUED QUARTERS 2 AND 3

ABRAHAM DARBY LEISURE CENTRE – Follow up undertaken and improved to YELLOW

1. Introduction and Scope

- 1.1 An audit review was commenced on 9th May 2016, to provide an opinion on the control environment and a level of assurance for Abraham Darby Leisure Centre. The scope of the audit was agreed by Leisure Team Leader.
- 1.2 We would like to thank the following for their help during the audit:
- ⌘ Leisure Team Leader
 - ⌘ Receptionist
 - ⌘ Duty Officers
 - ⌘ Administration Officer

2. Management Summary and Overall Opinion

- 2.1 On the basis of the work carried out in respect to Abraham Darby Leisure Centre, 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.*

As part of this audit some of the Central Leisure Team controls and procedures in respect to Clarity were reviewed. On the basis of the work in this area the level of assurance is **Reasonable**. *There is a sound system of control but there is evidence of non-compliance with some of the controls.*

- 2.2 Recommendations have been made to strengthen the controls found to require improvement at both Abraham Darby Leisure Centre and Central Leisure administration. 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 Abraham Darby	Number	Percentage
High	4	17%
Medium	15	66%
Low	4	17%%
Total	23	100%

Recommendation Risk Rating Central Leisure	Number	Percentage
High		
Medium	6	100%
Low		
Total	6	100%

- 2.3 As part of the audit process we also identified some minor items that did not require recorded recommendations but were discussed at the closure meeting with the Leisure Team Leader.

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

Recommendation Category	Implemented	Reiterated
Legal Requirement	1	1
Financial Regulation	7	-
Policy/Procedure	7	1
Best Practice	-	-
Total	15	2

2.5 The implementation of the recommendations made in this report and those outstanding from the previous review will further strengthen the controls and processes in Abraham Darby Leisure Centre and Central leisure administration.

CHILDREN’S BROKERAGE – FOSTER CARE

1. Introduction and Scope

- 1.1 An audit review was commenced in January 2016, to provide an opinion on the control environment and a level of assurance for Children’s Brokerage – Foster Care. The scope of the audit was agreed by Service Delivery Manager Placements.
- 1.2 We would like to thank the following for their help during the audit:
 - ⌘ Team Leader Self Directed Support & Brokerage
 - ⌘ Family Placement Team Manager
 - ⌘ Brokerage Officers

2. Good Practice Areas

- 2.1 During the audit a good practice area within the process for Children’s Brokerage - Foster care was identified.
 - ⌘ Since 1st March 2016 and the finalisation of the SMT restructure there is now a regular meeting with the AD, SDM’s and Family Placements Team Manager to monitor the movement of foster care placements

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 to strengthen the controls found to require improvement. 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	3	27%
Medium	6	55%
Low	2	18%
Total	11	100%

- 3.3 The implementation of the recommendations made in this report will strengthen the controls and processes relating to Children’s Brokerage - Foster Care.

COMMUNITY SUPPORT FINANCE AUDIT – Follow up undertaken and improved to GREEN

1. Introduction and Scope

- 1.1 An audit review commenced April 2016, to provide an opinion on the control environment and a level of assurance for Community Support, Clients finances (sites tested Great Bolas, Grizedale, Ketley, Lightmoor and Trench). The scope of the audit was agreed by Service Leader, Community Support and Shared Lives.
- 1.2 We would like to thank the following for their help during the audit:
- Service Leader, Community Support and Shared Lives.
Senior Enablement Workers
Enablement Workers
Safeguarding Finance Officer

2. Good Practice Areas

- 2.1 During the audit a couple of good practice areas within the process for community support finance audit were identified. These were:
- ∴ At the Trench site at the end of each finance sheet, the page is audited by a member of staff. The finance entries were ticked in red when checked and verified to receipt. The bottom of the page was then signed and dated.
 - ∴ At the Grizedale site the receipts retained are numbered and then stored in an envelope with the finance records. Written on the front of the envelope is the page number of the finance book that the receipts relate to.

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 to strengthen the controls found to require improvement. 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	6	26
Medium	17	74
Low		
Total	23	100

3.3 The implementation of the recommendations made in this report will further strengthen the controls and processes in Community Support

CORE GROUPS

1. Introduction and Scope

- 1.1 An audit review was commenced in May 2016, to provide an opinion on the control environment and a level of assurance for Core Groups. The scope of the audit was agreed by SDM Child Protection & Family Support
- 1.2 We would like to thank the following for their help during the audit:
- ✧ SDM Child Protection & Family Support
 - ✧ Team Leader Support Services
 - ✧ 3 Team Leaders from Children’s Safeguarding

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. 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	25%
Medium	6	75%
Low	0	0
Total	8	100%

2.3 The implementation of the recommendations made in this report will further strengthen the controls and processes in relation to Core Groups.

SUPERVISION POLICY REVIEW

1. Introduction and Scope

- 1.1 An audit review was commenced in February 2016, to provide an opinion on the control environment and a level of assurance in respect to the Supervision Policy (Children's and Adults). The scope of the audit was agreed by the Director Children's & Adult Services.
- 1.2 We would like to thank the following for their help during the audit:
- ⌘ Managers & Staff across Early Help & Support and Children's Safeguarding who responded to questionnaires and provided further assistance where required
 - ⌘ Service Delivery Manager Mental Capacity & Safeguarding
 - ⌘ Principal Social Worker Children's Safeguarding

2. Good Practice Areas

- 2.1 During the audit an area of good practice within the process for Children's Safeguarding Supervision was identified.
- ⌘ The process has recently changed. There used to be a paper copy for each case discussed, which was then signed, scanned and uploaded onto Protocol and attached as a case file by a Business Support Officer. All case specific discussions at supervision sessions are now typed directly onto a Protocol template on the live data base as a case note; these remain as draft for seven days so that the Social Worker can review them and ensure that they are correct.

3. Management Summary and Overall Opinion

- 3.1 It should be noted that the Supervision Policy and guidance is in the process of being revised and reissued across both Children's and Adults Services but the principles tested during this audit review remain the same. On the basis of the work carried out, our opinion based on the level of assurance provided by the controls for this process 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. Application of the revised guidance should address some of the issues identified in this review.
- 3.2 Recommendations have been made to strengthen the controls found to require improvement. 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	10%
Medium	6	60%
Low	3	30%
Total	10	100%

- 3.3 The implementation of the recommendations made in this report will further strengthen the controls and processes within the Supervision process.

WEST ROAD PETTY CASH

1. Introduction

- 1.1 As part of the follow up of the Section 17 Audit it was noted that there were a number of payments being made from the Child Protection & Family Support imprest account that did not have any evidence or supporting receipts. Additional work was therefore undertaken to investigate this position to ensure that there were adequate controls in place and to ascertain if the sub account was being properly administered, in accordance with Financial Regulations.
- 1.2 Two auditors visited West Road on 14 June 2016 to undertake a reconciliation of the petty cash held. Due to the lack of supporting documentation this could not be undertaken and recommendations have been made to improve the procedures and controls in place.
- 1.3 We would like to thank the following for their help during this review:
- ✳ Service Support Officer - Finance
 - ✳ Principal Social Worker

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 the West Road sub account 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. 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	5	55%
Medium	4	45%
Low	-	-
Total	9	100%

- 3.3 The implementation of the recommendations made in this report will strengthen the financial controls and processes at West Road.

CHILDREN'S ARRANGEMENT ORDERS

1. Introduction and Scope

- 1.1 An audit review commenced February 2016 to provide an opinion on the control environment and a level of assurance for Children's arrangement orders. The scope of the audit was agreed by the AD: Children's Safeguarding & Specialist services.
- 1.2 We would like to thank the following for their help during the audit:
- Team Manager - Family & Friends Fostering

Team Manager - Child Protection & Family Services
 Team Leader - Children's Safeguarding
 Senior Finance Officer
 Service Support Officer – Finance

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. 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	3	17%
Medium	13	72%
Low	2	11%
Total	18	100%

- 2.3 The implementation of the recommendations made in this report will further strengthen the controls and processes for Children's Arrangements Orders.

TEMPORARY ACCOMMODATION

1. Introduction and Scope

- 1.1 An audit review was commenced June 2016 to provide an opinion on the control environment and a level of assurance for Temporary Accommodation. The scope of the audit was agreed by Service Delivery Manager – Cohesion.
- 1.2 We would like to thank the following for their help during the audit:
- Business Administration Apprentice
 - Family Intervention Specialist
 - Homelessness Team Leader
 - Locality Manager (Wrekin)
 - Surveyor
 - Senior Finance Officer
 - Revenues Billing & Collections Group Manager

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. 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	18%
Medium	8	73%
Low	1	9%
Total	11	100%

- 2.3 As part of the audit process we also identified some minor items that did not require recorded recommendations but were discussed with the appropriate Manager.
- 2.4 The Business Administration Apprentice post was responsible for auditing temporary accommodation accounts and ensuring all payments are correctly allocated to the resident's account. She monitored bad debts and undertook debt recovery. Unfortunately the Apprentice left the Cohesion Team 8/7/16 and the responsibility for monitoring resident's accounts has been transferred for an interim period to the Family Intervention Specialist. There is uncertainty on who will be responsible for this in the long term due to restructures and reduced/shortages of staff. This is a high risk area and Audit have concerns that if payments are not monitored adequately there is the possibility that accounts and the information held will not be reliable and therefore it would make any debt recovery very difficult.
- 2.5 The implementation of the recommendations made in this report will further strengthen the controls and processes in Temporary Accommodation.

TREASURY MANAGEMENT – Follow up undertaken and improved to GREEN

1. Introduction and Scope

- 1.1 An audit review was commenced in July 2016, to provide an opinion on the control environment and a level of assurance for Treasury Management. The scope of the audit was agreed by the Finance Team Leader.
- 1.2 We would like to thank the Treasury Officer and Finance Team Leader for their help during the audit.

2. Good Practice Areas

- 2.1 During the audit the following area of good practice within the process for Treasury Management was identified.
- ⌘ Records for short term investments are referenced within files and cross referenced on the cash book

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 to strengthen the controls found to require improvement. 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	3	60%
Medium	2	40%
Low	-	-
Total	5	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 meeting with the Finance Team Leader.
- 3.4 As part of this audit we have also followed up the recommendation made in the previous audit and have confirmed that it has been implemented.
- 3.5 The implementation of the recommendations made in this report will further strengthen the controls and processes in Treasury Management.

Internal Audit Charter – 1st April 2017 – 31st March 2018**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 & Investigations Services Team is led by the Internal Audit, IG, Insurance & Investigations 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, "Being the Change" 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, objective 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 value adding internal audit activity whilst meeting the requirements of the Public Sector Internal Audit Standards (PSIAS) including the Code of Ethics (especially objectivity and integrity) 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 assurance 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 risk based annual audit plan taking into account the Accounts and Audit Regulations 2015, the management of risk, senior management consultations, internal and external intelligence, comments from the Audit Committee and any requirements of the External Auditor. The plan is 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, MO and Audit Committee.
- 2.3.4 To operate as an independent, objective assurance function designed to add value and improve the effectiveness of the governance, risk management and control processes of the Council. The independent assurance work may include financial, performance, compliance, system security and information governance assignments.
- 2.3.5 Internal Audit does not undertake any individual consultancy assignments.

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

- 2.3.6 To ensure audit assignments are delivered to measure the effectiveness of risk management at a local level.
- 2.3.7 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.
- 2.3.8 To provide clear, objective and concise internal audit reports to support management in implementing recommendations to improve services and risk management, control and governance processes.
- 2.3.9 To provide responsive, challenging and informative advice and support on risk management, controls and governance to management.
- 2.3.10 To report to the Audit Committee⁴ as defined in their terms of reference.
- 2.3.11 To develop and maintain a quality assurance and improvement programme covering all aspects of the internal audit activity.
- 2.3.12 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.
- 2.3.13 To investigate cases of suspected financial irregularity, fraud or corruption, except council tax support fraud investigations, in accordance with agreed procedures.
- 2.1.14 To provide appropriate assurance to relevant parties external to the Council.

2.4 Internal Audit Authority

- 2.4.1 The Internal Audit, IG, Insurance & Investigations Service Delivery Manager is the Council's Chief Audit Executive as defined in the PSIAS.
- 2.4.2 The Internal Audit, IG, Insurance & Investigations Service Delivery Manager is line managed by the Council's Monitoring Officer but has unfettered access to the Managing Director, the CFO and all senior managers within the Council.
- 2.4.3 The Internal Audit, IG, Insurance & Investigations Service Delivery Manager has responsibility for non-audit services including Information Governance, Insurance Services and the Corporate Investigations Team. The Internal Audit, IG, Insurance & Investigations Service Delivery Manager will communicate any further changes to their scope of responsibility in terms of non-audit functions to the Audit Committee prior to commencement of any such functions. In order to avoid/manage any potential conflicts in respect to the audit of the Information Governance and Insurance functions (and any other future additional functions) the external contractor personnel are used to undertake this work and in addition to standard quality review the results and responses are overseen by the CFO in addition to the Monitoring Officer.
- 2.4.4 The Internal Audit, IG, Insurance & Investigations Service Delivery Manager reports to the Audit Committee but also has unfettered access to the Chair of the Audit Committee, the Leader as Cabinet lead for Governance, other Cabinet Executives and the External Auditor.
- 2.4.5 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 & Investigations Services Delivery 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 & Investigations 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 & Investigations Service Delivery Manager prepares an annual audit plan. Internal Audit planning is informed and influenced by the Council's vision, priorities, "Being the Change" 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/ priorities and "Being the Change" aims they 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 & Investigations Manager has quarterly meetings with the Managing Director and CFO. 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 2017/18 the Internal Audit team has a resource of 3.98 full time equivalent (fte) employed staff plus at least 50% of the Internal Audit, IG, Insurance & Investigations 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

MISSION OF INTERNAL AUDITING: To enhance and protect organisational value by providing value added, risk-based and objective assurance, advice and insight.

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.

All public sector officials including internal auditors 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

Council's values: – Ownership – Openness & Honesty – Involvement – Fairness & Respect

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



1 SUMMARY OF MAIN PROPOSALS

1.1 For the Audit Committee to note the progress on the actions contained in the 2015/16 Annual Governance Statement (AGS) action plan for implementation during 2016/17.

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 31/12/16 from the 2015/16 AGS. Final position will be reported in the 2016/17 AGS which should be agreed by 30th June 2017.</i>	
FINANCIAL/VALUE FOR MONEY IMPACT	No	<i>Some of the actions detailed have been the subject of specific reports and where appropriate financial implications of any recommendations will have been made in those reports, therefore, the actions being delivered are within approved financial resources, and there are no direct financial implications from adopting the recommendations of this report.</i>
LEGAL ISSUES	Yes	<i>The requirement for the Council to prepare and approve an Annual Governance Statement is set out in the Accounts and Audit Regulations 2015 - Part 2 Internal Control , Paragraph 6.</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 December 2016 against the actions agreed in this action plan in June 2016.

5 PREVIOUS MINUTES

5.1 Cabinet 16th June 2016; Audit Committee 28th June 2016

6 BACKGROUND PAPERS

Local Code of Corporate Governance June 2016
 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

Delivering Good Governance in Local Government: Framework (2016 Edition)
Accounts and Audit Regulations 2015 (Part 2 ,Paragraph 6).

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

UPDATED AGS ACTION PLAN FOR 2015/16 TO BE IMPLEMENTED 2016/17 AS AT 31/12/16

No	Action	Lead Officer	Comments and implementation date when agreed June 2016	Updated position as at 31/12/16 & implementation date (updated where required)
1.	Continued strategic management of organisational change in respect to "Being the Change", continued reduced budgets, revised structures, uncertainties around NNDR reform and commercial/ business approach which links to the continued development and implementation of revised governance framework.	Managing Director and SMT	<p>Agreeing revised governance requirements from "Being the Change", updated Code of Good Governance and incorporating any changes into the Constitution, strategies and policies. Service Planning process has been updated and new plans will be operational for 2016/17 and monitoring will take place through challenge at SMT including the impacts of future reductions in budgets and changes to the local government finance system.</p> <p>Updated Constitution effective from Summer 2016. On-going 31/03/17</p>	<p>Changes made to the Constitution and key strategies, policies and procedures.</p> <p>SMT has challenged and monitored service plans during the year and considered the impacts of proposed savings and changes to local government finance.</p> <p>Budget and savings actions on-going to 31/03/17. Service planning for 2017/18 to be completed by Spring 2017</p>
2.	Update local Code of Good Governance to reflect the revised CIPFA/SOLACE framework and guidance (issued April 2016)	Managing Director/ Monitoring Officer	<p>Local Code to be updated and then communicated across the Council. 31/05/16</p> <p>Update 2016/17 certification process to reflect revised framework. 31/01/17</p> <p>Implement March 2017 to support 2016/17 Annual Governance Statement. 16/03/17</p>	<p>Complete</p> <p>In progress and on target for 31/01/17</p> <p>Implementation March – April 2017</p>

No	Action	Lead Officer	Comments and implementation date when agreed June 2016	Updated position as at 31/12/16 & implementation date (updated where required)
3.	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 commenced early 2016 and will progress during the year as will need to be completed by 31/12/17.</p> <p>Procurement actions on-going throughout the year including reporting to Audit Committee as appropriate.</p> <p>Planning for revised final accounts deadlines for 2017/18 to commence in 2015/16 so there 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>Working towards updated final accounts timetable for 2016/17 onwards.</p>	<p>Decision made by Full Council on 24th November 2016 to elect into the Sector led body – PSAA – following a recommendation from the Audit Committee.</p> <p>Completion of appropriate documentation by 28/02/17 (when requested)</p> <p>Report to Audit Committee in September 2017 re results of procurement process and recommendation for appointment by full Council by 31/12/17.</p> <p>On target</p>
4.	Complete the review and implementation of Workforce Development priorities and delivery.	Managing Director	The key leadership, management and workforce requirements have been identified and the Council's development programme now	Several have been updated and reintroduced, others are in the process of being updated and reviewed.

	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.		reflects these. The programme is revised on a rolling basis. Human Resources policies have been prioritised and are being revised and renegotiated in line with these priorities. On-going as agreed with SMT (31/03/17).	On-going as agreed with SMT (31/03/17).
No	Action	Lead Officer	Comments and implementation date when agreed June 2016	Updated position as at 31/12/16 & implementation date (updated where required)
5.	Deliver the improved processes and associated governance to deliver savings and service improvements across Early Help & Support (includes adult social services)	AD: Early Help & Support/ AD Governance, Procurement & Commissioning	New target operating model effective from November 2015 and links to Cost Improvement Plan. Monitoring of the latter continuing with Senior Management and Members. Further governance in respect to the Better Care Fund will be implemented during 2016/17. On-going 31/03/17 and beyond	Adult Social Services are now included with Early Help & Support Services. New structures will be in place by the end of 2016. A further revision is being made to the operating model which will come into effect in 2017. Associated policies and procedures will also be launched in 2017. Service teams will be based in localities alongside other public and voluntary sector services. Teams will be assigned targets linked to our cost improvement plan. The new operating model has been designed to support delivery of these targets. Targets will be used to determine our sufficiency plans for placements over a four year period. Our brokerage and contract teams will focus upon driving out further efficiencies through effective procurement. The Council awaits further guidance regards the Better Care Fund. This is a pooled budget

				to support the health and well-being of residents of the Borough which is managed by finance in liaison with Health colleagues with strategic governance and oversight being provided by the Sustainability & Transformation Planning process and associated governance structures.
No	Action	Lead Officer	Comments and implementation date when agreed June 2016	Updated position as at 31/12/16 & implementation date (updated where required)
6.	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 and Director – Customer, Neighbourhood & Well-Being Services	This action plan is particularly focussed on any recommendations from external reviews that improve the governance arrangements in these areas. Various dates throughout 2016/17	An Ofsted Action Plan will be submitted for approval shortly. Implementation of the action plan will be overseen by service area management teams, the LSCB and C&YP Scrutiny. The Adult Services Peer Review has informed work in redesigning services. Further work will be done on other aspects of the peer review once the permanent Assistant Director has started (February 2017) Lakewood Court was inspected by CQC in March 2016 and received a GOOD rating.
7.	Continue to develop and implement appropriate governance arrangements to support commercial projects.	Managing Director & SMT	Continued support and review of the separate company arrangements and associated governance issues. Ensure continued proper governance arrangements for commercial projects including robust business cases and funding approval. On-going during 2016/17	Governance processes in place and on-going during 2016/17.