



Telford & Wrekin
C O U N C I L

Addenbrooke House Ironmasters Way Telford TF3 4NT

AUDIT COMMITTEE

Date	30th January 2018	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
Media Enquiries	Corporate Communications	01952 382407
Lead Officer	Suzanne Dodd	01952 383255

Committee Membership: Councillors **R J Sloan (Chair)**, **C F Smith (Vice Chair)**, I T W Fletcher, 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 19th September 2017.
- 4. KPMG Annual Audit Letter 2016/17** Appendix **B**
To receive the report from KPMG
- 5. Grant Report 2016/17** Appendix **C**
To receive the report from KPMG
- 6. External Audit Plan 2017 / 18** Appendix **D**
To receive the report from KPMG
- 7. Disaster Recovery Audit Reports Update**
To receive the verbal report of the Assistant Director: Commercial Services
- 8. Treasury Management Strategy 2018 / 19 and Update 2017 / 18** Appendix **E**

Continued ...

... Continued

- To receive the report of the Assistant Director: Finance & Human Resources and Chief Financial Officer
9. **Internal Audit Charter 2018 / 19** Appendix **F**
To receive the joint report of the Audit & Governance Team Leader and the Principal Auditor
10. **Internal Audit Activity Report July – December 2017 / 18** Appendix **G**
To receive the joint report of the Audit & Governance Team Leader and the Principal Auditor
11. **Strategic Risk Register**
To receive the verbal report of the Managing Director and Statutory Head of Paid Services
12. **Update position of the Annual Governance Statement Action Plan 2016 / 17** Appendix **H**
To receive the report of the Audit & Governance Team Leader

AUDIT COMMITTEE

A

Minutes of a meeting of the Audit Committee held on Tuesday, 19 September 2017 at 6.00pm in Meeting Room G3-G4, Addenbrooke House, Ironmasters Way, Telford

Present: Councillors R J Sloan (Chair), C F Smith (Vice Chair), I T W Fletcher, K S Sahota, W L Tomlinson and D G Wright

In Attendance: K Clarke (Assistant Director: Finance & Human Resources), S Dodd (Service Delivery Manager: Governance & Legal Services), J Dunn (Service Delivery Manager: Estates & Investments) (For item AUC-26), T Drummond (Principal Auditor), C Hall-Salter (Service Deliver Manager: Service Improvement & Efficiency) (Until 7:20pm), P Harris (Finance Manager: Corporate & Capital) (until 7.01pm), R Montgomery (Audit & Governance Team Leader), B Morris (Finance Team Leader) (until 7.01pm), M Breese (KPMG), I Pennington (KPMG), S Worthington (Democratic & Scrutiny Services Officer)

AUC 14 Apologies for Absence

None.

AUC 15 Declarations of Interest

None.

AUC 16 Minutes

Resolved – that the minutes of the meeting of the Audit Committee held on 27 June 2017 be confirmed and signed by the Chairman.

AUC 17 TREASURY MANAGEMENT – UPDATE FROM ARLINGCLOSE

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. The political situation had considerably changed since the previous year, following the US Presidential Election and the situation in North Korea. In the UK, the election in June 2017 had weakened the government and Article 50 had been triggered.

The Bank of England were likely to raise the base rate, but likely only to 0.5%. Even if the rate was to increase to 0.5%, this was still at a very low level historically. Average earnings had not kept up with inflation. It was the view of the Council's treasury advisors the rates were likely to remain at low levels for a considerable period of time.

Changes had been made to the MIFID regulations, from January 2018, there would be a change in the classification of Local Authorities, where they would be 'retail'

clients, unless they opted up to 'professional'. Retail clients would pay higher fees and reduced access to products.

CIPFA were in consultation for changes to the treasury management code. There were changes to the definition of 'investments', it was proposed to expand this to include non-treasury investments. Failing banks would be 'bailed in' rather than 'bailed out', where the investors would participate in the restructure of a failing bank.

In respect of the Local Authority's debt portfolio, the advisors confirmed this was an efficient portfolio, the Council borrowed when required. A discussion was held regarding commercialisation and managing risks associated with this.

AUC 18 REPORT TO THOSE CHARGED WITH GOVERNANCE 2016 / 17

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 2016/17 financial statement and the work to support KPMG's 2016/17 conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources (VFM conclusion).

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

Three recommendations had been raised in respect to:

- Related party declarations
- 2017/18 Early Closedown
- Completeness of valuation information

One audit adjustment with a total value of £0.5 million had been identified, however, this was to be included in the 2017/18 accounts.

AUC 19 IMPLEMENTATION OF AMBER REPORT ACTIONS (ADULTS & CHILDREN) & SYSTEM REVIEW IMPLEMENTATION UPDATE

The Service Delivery Manager: Service Improvement & Efficiency provided a verbal update. A Quality and Complaints Officer had been recruited to work alongside the Audit team to ensure audit recommendations were acted on in a timely manner.

In response to a question, the Service Delivery Manager: Service Improvement & Efficiency confirmed that each level of management was accountable for their service's delivery and areas of failing were highlighted. The Managing Director was keen to ensure increased accountability across the Senior Management Team in respect of audit findings.

In respect of the systems review, the Service Delivery Manager: Service Improvement & Efficiency confirmed this was due for renewal in March 2018. This had been an ideal opportunity to review processes. Work had taken place to obtain a new supplier and contracts were due to be signed. Telford & Wrekin had worked with

Shropshire Council to obtain a discounted service rate. The same system would be used across adults and children's services, and the case recording and financial systems would be linked.

AUC 20 AUDITED ANNUAL STATEMENT OF ACCOUNTS 2016 / 17

The Committee received the report on the outcome of the audit of the Council's accounts for 2016/17 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 27 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 29 June 2017.

Presentational changes identified had been agreed and included in the final version.

Resolved that –

- a) The 2016 / 17 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.**

AUC 21 PUBLICATION OF INFORMATION ON COUNCILLORS WHO TRADED WITH THE COUNCIL DURING 2016 / 17

The Committee received the report on information that was due to be published on Councillors who traded with the Council during 2016/17. 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 2016/17 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.

Members noted their concern regarding incomplete information in the report for Councillors who were voluntary directors. Members considered that a consistent definition of who was considered to have traded with the council was necessary.

Members considered that the names of Councillors who were voluntary directors of trusts should be removed before publication.

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

AUC 22 AUDIT COMMITTEE ANNUAL REPORT 2016 / 17

The Committee received the report of the 2016/17 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 2016 – April 2017). 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 2016/17, 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.

Resolved that the contents of the annual report 2016/17 be noted.

AUC 23 2017 / 18 INTERNAL AUDIT QUARTER 1 UPDATE REPORT & INFORMATION GOVERNANCE UPDATE REPORT TO END OF

The Internal Audit Quarter 1 report was received by the Committee. It provided an update on the progress against the Internal Audit Plan, which included an update on the progress of the previous audit reports issued from end of April to July 2017. The key focus of the team during the quarter had been the commencement of the 2017 / 18 audit plan. The Audit & Governance team restructure had been in place from 12 June 2017.

5 Amber reports had been issued in the quarter, which were detailed in appendix 4 to the report. Members raised their concerns regarding the audit findings in respect of ICT Disaster Recovery and requested that the Assistant Director: Commercial Services and the ICT Service Delivery Manager be invited to the next Audit Committee to discuss the Audit findings.

In respect to Information Governance, the Audit & Governance Team Leader advised that 371 FOI requests had been received in the period, of which 88% had been responded to within the 20 working day statutory period.

Resolved that the information contained in the report be noted in respect of the work of Internal Audit and Information Governance for quarter one 2017 / 18 against the PSIAS.

AUC 24 EXTERNAL AUDITOR PROCUREMENT UPDATE

The Service Delivery Manager: Governance & Legal Services advised that under Regulation 3 of the Local Audit (Appointing Person) Regulations 2015, the Local Authority must appoint an external auditor and the authority must be consulted regarding the appointment. The appointment would be for a period of 5 years, with a 2 year option.

The proposed auditors were Grant Thornton (UK) LLP. If the committee accepted the appointment, then there was no need to do anything further, however, any opposition must be notified to the PSAA.

Resolved that no action should be taken in respect of procurement of new external auditors.

AUC 25 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 26 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.

The meeting ended at 8.05pm

Chairman:

Date:



Annual Audit Letter 2016/17

**Telford and Wrekin
Council**

kpmg.com/uk

October 2017



Contents

Report sections

Summary of the 2016/17 audit	3
------------------------------	---

Appendices

1. Key issues and recommendations	5
2. Summary of reports issued	7
3. Audit fees	8

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.psaa.co.uk).

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Ian Pennington, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (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.

The contacts at KPMG in connection with this report are:

Ian Pennington

Director

KPMG LLP

T: +44 (0)292 046 8087

E: ian.pennington@kpmg.co.uk

Mark Breese

Manager

KPMG LLP

T: +44 (0)121 232 3250

E: mark.breese@kpmg.co.uk

James Keen

Assistant Manager

KPMG LLP

T: +44 (0)121 232 3268

E: james.keen@kpmg.co.uk

Headlines

This Annual Audit Letter summarises our audit work at Telford and Wrekin Council in relation to the 2016/17 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.



Audit opinion

We issued an unqualified opinion on the Authority's financial statements on 26 September 2017. Our unqualified opinion 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.

We have made three recommendations to strengthen the Authority's control environment. This includes one high priority recommendation. Further detail can be found at Appendix 1.



VFM conclusion

We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2016/17 on 26 September 2017. 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.

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.

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 the Authority has in place to mitigate these risks.

Our assessment identified that financial resilience is a significant VFM risk to the Authority. 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.

Our work assessed the controls the Authority has in place to ensure a sound financial standing. We also reviewed the way in which the Authority monitors the delivery of income from commercial projects.

We have concluded that in 2016/17, the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Headlines (continued)

Financial statements audit

We are pleased to report that we did not identify any material misstatements as a result of our audit work. We identified one non-material audit difference, which was not adjusted by management.

We agreed a number of minor presentational and disclosure changes to the 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 2016/17.

We identified one high priority recommendation, in relation to related party declarations obtained from councillors and management. Further detail can be found at Appendix 1.

As part of our audit work we followed up on the Authority's progress against the audit recommendation raised during 2015/16. We are pleased to report that the Authority has taken appropriate action to address the issue that we have previously highlighted.

Other information accompanying the financial statements

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 in respect of the Annual Governance Statement being inconsistent with the guidance set out in *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE.

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 issued our certificate on 5 October 2017. The certificate confirms that we have concluded the audit for 2016/17 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.

We also issued on 5 October 2017 our certificate for 2015/16, which had been delayed whilst we completed our work in response to questions raised by an elector. Further detail is provided below.

Response to elector question

As reported in our 2016/17 audit report, our audit certificate for the 2016/17 accounts was delayed for a short period due to an outstanding elector question in relation to a loan provided by the Authority to AFC Telford. This also delayed the issuance of the certificate for 2015/16.

We have concluded our work in respect of the elector question and identified no significant findings. We have made recommendations to management. As a result of the additional work required to conclude on this question, we have incurred additional costs for which a fee of £4,570 was agreed with the Authority and which is being reviewed by Public Sector Audit Appointments.

Audit fee

Our scale fee for 2016/17 was £117,119 excluding VAT. This is the same as in the prior year.

We have also carried out work on the Nuplace Limited financial statements, consolidation of these into the Group financial statements, and taxation compliance for Nuplace Limited, as well as housing benefits certification and Teachers' Pension Agency return certification work. Further detail is contained in Appendix 3.

Key issues and recommendations

Following the completion of our audit work we have raised three recommendations.

H High priority - Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.

M Medium priority - Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.

L Low priority - Issues that would, if corrected, improve internal control in general but are not vital to the overall system. These are generally issues of good practice that we feel would benefit if introduced.

H 1. Related Party Declarations

At the time of concluding our on-site audit visit, the Authority was still awaiting 29 out of 66 related party declarations. We understand from management that, following an exercise by the Authority to request outstanding declarations, 4 declarations remain outstanding at the time of issuing our report. Related Party Declarations need to be completed and returned on a timely basis so that the Authority is aware where such relationships may exist. Identification of related parties is important, not just to enable disclosure in the accounts, but to ensure that the Authority can demonstrate that it is making decisions free from influence and demonstrate value for money.

Recommendation

The Authority should ensure that related party declarations are completed and returned on a timely basis, and that these declarations are used to inform the register of interests and accounts disclosures.

Management response

Councillors will be reminded that it is their duty to declare any interests and that we are required by Regulation to include this information in the Statement of Accounts. Additional reminders will also be issued earlier in the process.

Owner

Ken Clarke, AD: Finance & HR; Bernie Morris, Finance Team Leader

Deadline

March 2018

Key issues and recommendations

M

2. 2017/18 Early Closedown

Over recent years the Finance team has demonstrated a strong track record of achieving closure of the accounts.

2017/18 represents the first year of the earlier deadline of 31 May for the first Draft accounts to be made available, and 31 July for approval and publishing of the accounts, brought forward from 30 September.

Recommendation

The Authority should plan to bring forward its Audit Committee meeting to receive the accounts, further evaluate where the year end timetable could be streamlined and ensure audit requirements are met to facilitate an earlier audit in 2017/18. Ideally the Authority should move to more rigorous closedowns of all account areas (such as capital) on a monthly basis.

Management response

The provisional meeting timetable for 2018/19 includes an Audit Committee meeting before the end of May to receive the draft accounts. Considerable work has already been undertaken to accelerate the SOA timetable and the 2016/17 draft accounts were complete on the 7 June. Although challenging, some further adjustments will be made to meet 31 May deadline for the 2017/18 draft accounts. Discussions have already taken place about taking a different approach to the audit next year with more work being undertaken at the interim audit stage, or earlier. Finance staff will assist as far as possible in ensuring a smooth audit with the aim of publication of the final accounts by the 31 July deadline.

Owner

Pauline Harris – Finance Manager; Bernie Morris – Finance Team Leader

Deadline

Now to 31 May 2018

M

3. Completeness of valuation information

We identified one instance where incomplete information was provided to the valuer, resulting in an incorrect valuation and audit difference.

Recommendation

The Authority should ensure that there is a robust process in place to ensure that all relevant information is provided to the valuer in advance of the valuation being made.

Management response

The error occurred due to a missing completion certificate which resulted in the capital spend relating to the asset being incorrect on the valuers' spreadsheet. Going forward the new Fixed Assets Module will produce a list of assets to be valued, this will include the capital expenditure to date and should ensure that an error of this nature does not occur again. Valuers will also be able to access the module to check capital spend.

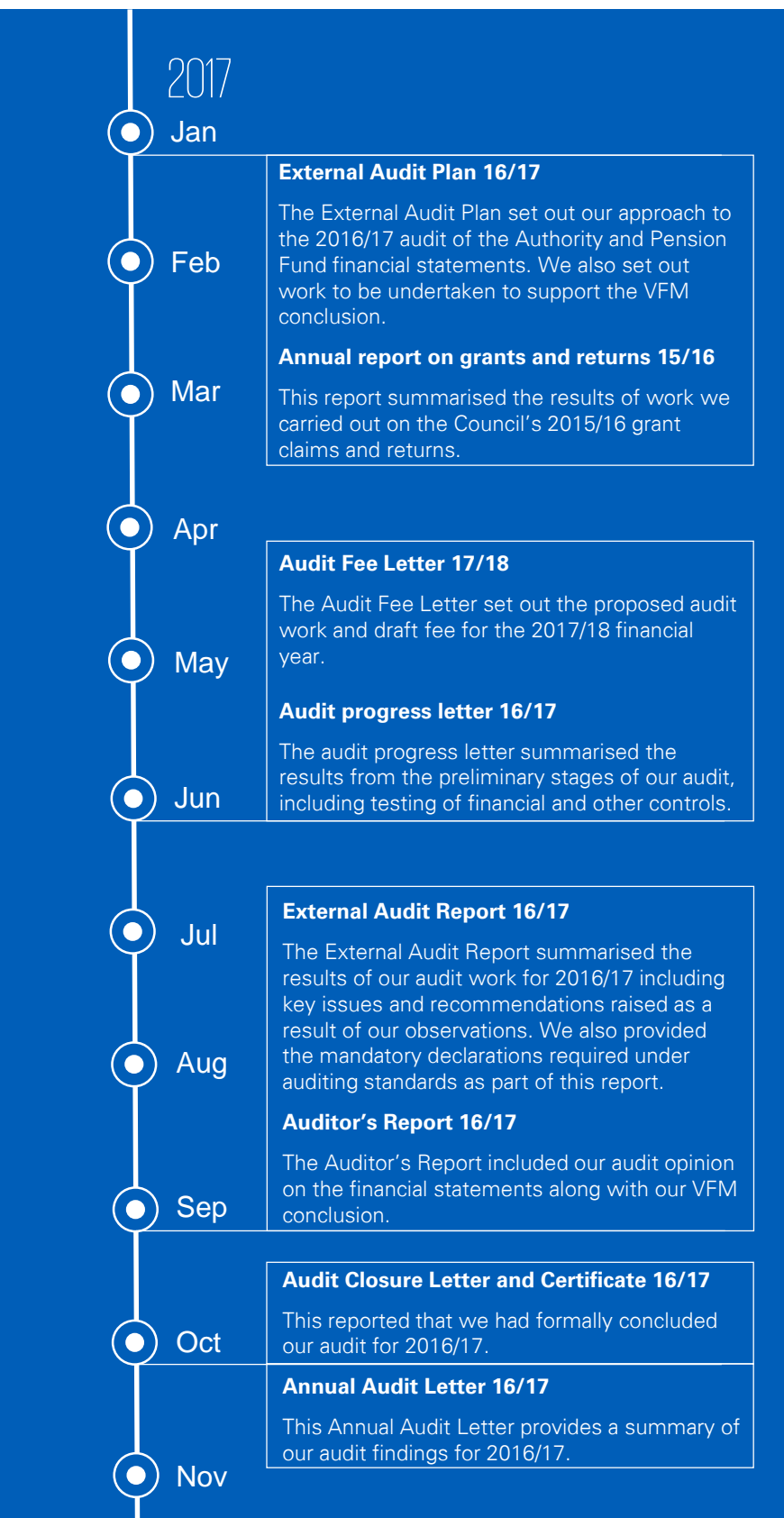
Owner

Bernie Morris, Finance Team Leader; James Dunn, SDM Estates & Investments

Deadline

30 September 2017

Summary of reports issued



This appendix summarises the reports we issued to the Authority's Audit Committee since our Annual Audit Letter, issued in October 2016.

These reports can be accessed via the Audit Committee pages on the Authority's website at:

apps.telford.gov.uk/CouncilAndDemocracy/Meetings/Calendar

Appendix three

Audit fees

This appendix provides information on our final fees for the 2016/17 audit.

To ensure transparency about the extent of our fee relationship with the Authority, we have summarised below and in the chart opposite our fees for the Authority's 2016/17 financial year.

External audit

Our fee for the 2016/17 audit of Telford and Wrekin Council is £117,119 plus VAT (2015/16: £117,119). This is in line with the PSAA scale fee.

We have been required to perform additional work as a result of an elector question raised during the 2015/16 audit year. We have now concluded this work. We have agreed a fee of £4,570 plus VAT with the Authority in respect of this. This is subject to PSAA approval.

In addition, we have agreed an additional fee of £808 plus VAT (2015/16: £808) with the Authority and PSAA for the additional work required around the consolidation of Nuplace into the Authority's accounts.

Certification of grants and returns

Our final fee for our 2016/17 housing benefits certification work (BEN01) was £7,155 plus VAT (2015/16: £9,239). This is in line with the PSAA scale fee.

Other services (non-PSAA services)

Nuplace Limited

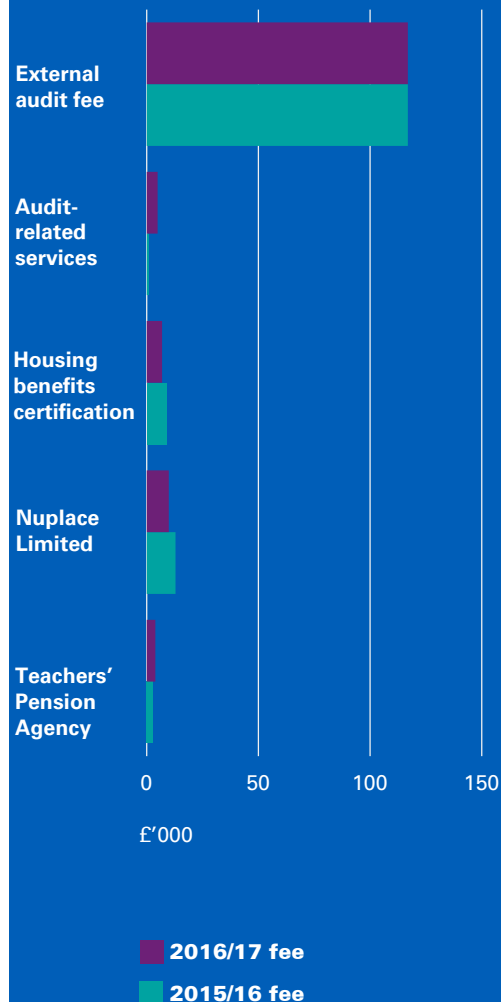
Our fees for the separate audit of the Nuplace Limited financial statements were £9,850 plus VAT (2015/16: £9,850).

We were separately engaged by Nuplace to perform tax compliance work on the 2016 tax returns amounting to £2,500, and iXBRL tagging of £850, plus VAT.

Teachers' Pension Agency return

Our proposed fee for the certification of the Authority's Teachers' Pension Agency return is £3,500 plus VAT (2015/16: £3,000). This has increased due to additional work required as a result of changes to the certification procedures.

Fees 2016/17



kpmg.com/uk



© 2017 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.



Annual Report on grants and returns 2016/17

Telford & Wrekin Council

January 2018



Contents

**The contacts at KPMG
in connection with this
report are:**

Ian Pennington
Director

KPMG LLP (UK)

Tel: 0292 046 8067

ian.pennington@kpmg.co.uk

Mark Breese
Manager

KPMG LLP (UK)

Tel: 0121 232 3250

mark.breese@kpmg.co.uk

James Keen
Assistant Manager

KPMG LLP (UK)

Tel: 0121 232 3268

james.keen@kpmg.co.uk

	Page
Headlines	3
Summary of certification work outcomes	4
Fees	5

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.psaa.co.uk).

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

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

Introduction and background

This report summarises the results of work we have carried out on the Council's 2016/17 grant claims and returns.

This includes the work we have completed under the Public Sector Audit Appointment (PSAA) certification arrangements, as well as the work we have completed on other grants/returns under separate engagement terms. The work completed in 2016/17 is:

- Under the Public Sector Audit Appointments arrangements we certified one claim, the Council's 2016/17 Housing Benefit Subsidy return. This had a value of £69.5m total subsidy claimed.
- Under a separate engagement we completed 'Agreed Upon Procedures' (AUP) for the Teachers' Pensions Return. Total teachers' pension contributions (employees and employers) collected by the Council were £10.1m contributions paid.

Certification and assurance results (Page 4)

Our certification work on Housing Subsidy Benefit 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 (last year's claim was also unqualified).

Our work on the Teachers' Pensions Return AUP engagement followed the instructions issued by the Teachers' Pensions agency (TP) and included:

- completing a comparison of the actual employees' and employer's contributions included in the return with the expected value using the contributory salary reported in the return for each tier (ie the teachers' pensions scheme has six tiers related to salary with a different contribution rate for each);
- sample testing confirming that contributory salaries have been extracted correctly from payroll records, teachers' contributions have been deducted at the appropriate rate, employer's contributions have been calculated correctly and where relevant that 'other' contributions had been dealt with correctly; and
- completing testing in relation to any refunds of contributions made to teachers.

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

Recommendations

We have not made any recommendations to the Council from our work this year or last year.

Fees (Page 5)



Our fee for certifying the Council's 2016/17 Housing Benefit Subsidy grant was £7,155 plus VAT, which is in line with the indicative fee set by PSAA.

Our fee for the Teachers' Pensions Return was subject to agreement directly with the Council and was £3,000 plus VAT.

Summary of reporting outcomes

Overall, we carried out work on two grants and returns, both were unqualified.

Detailed below is a summary of the reporting outcomes from our work on the Council's 2016/17 grants and returns. A qualification would mean that issues were identified concerning the Council's compliance with a scheme's requirements that could not be resolved through adjustment. We are pleased to report that both returns were unqualified.

	Comments below	Qualified	Issue reported	Minor adjustment	Unqualified
PSAA regime					
— Housing Benefit Subsidy	1				
Other grant/return engagements					
— Teachers' Pensions Return	2				
		0	0	0	2

Ref	Summary observations	Amendment
1	Housing Benefit Subsidy — No issues identified as a result of our certification work	No
2	Teachers' Pensions Return — No issues identified as a result of out certification work	No

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 2016/17 was £10,155.

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 2016/17 of £7,155. Our actual fee was the same as the indicative fee, and this compares with the 2015/16 fee for this claim of £9,239.

Grants subject to other engagements

The fees for our assurance work on the Teachers' Pensions Return is agreed directly with the Council. Our fee for 2016/17 was in line with 2015/16.

Breakdown of fees for grants and returns work

Breakdown of fee by grant/return		
	2016/17 (£)	2015/16 (£)
Housing Benefit Subsidy claim	7,155	9,239
Teachers' Pensions Return	3,000	3,000
Total fee	10,155	12,239



kpmg.com/uk



© 2018 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.



External Audit Plan 2017/2018

**Telford and
Wrekin Council**

—
January 2018



Summary for Audit Committee

Financial statements There are no significant changes to the Code of Practice on Local Authority Accounting ("the Code") in 2017/18, which provides a stable set of accounting standards that the Council needs to comply with.

The deadline for the production and signing of the financial statements has been significantly advanced in comparison to the year ended 31 March 2017. This represents a significant change for the Authority and will need to be carefully managed in order to ensure the new deadlines are met. As a result we have recognised a significant risk in relation to this matter.

Significant risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- **Valuation of PPE** – Whilst the Authority operates a cyclical revaluation approach, the Code requires that all land and buildings be held at fair value. We will consider the way in which the Authority ensures that assets not subject to in-year revaluation are not materially misstated;
- **Pension Liabilities** – The valuation of the Authority's pension liability, as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We will review the processes in place to ensure accuracy of data provided to the Actuary and consider the assumptions used in determining the valuation.
- **Faster Close** – The timetable for the production of the financial statements has been significantly advanced with draft accounts having to be prepared by 31 May (2017: 30 June) and the final accounts signed by 31 July (2017: 30 September). We will work with the Authority in advance of our audit to understand the steps being taken to meet these deadlines and the impact on our work.

See pages 3 to 7 for more details.

Materiality

Materiality for planning purposes has been 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 **£225 thousand**.

See pages 8 to 9 for more details.

Summary for Audit Committee (cont.)

Value for Money Arrangements work

Our risk assessment regarding your arrangements to secure value for money has identified the following VFM significant risk to date:

- **Delivery of Budgets** – As a result of reductions in central government funding, and other pressures, the Authority is having to make additional savings beyond those from prior years. The Authority is also pursuing income generation strategies. We will consider the way in which the Authority identifies, approves, and monitors both savings plans and income generation projects and how budgets are monitored throughout the year.

See pages 10 to 14 for more details.

Logistics

Our team is:

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

More details are in **Appendix 2 on page 18**.

Our work will be completed in four phases from October to July and our key deliverables are this Audit Plan and subsequent reporting to Those Charged With Governance as outlined on **page 17**.

Our fee for the 2017/18 audit of Telford and Wrekin Council is £117,119 (£117,119 2016/2017), which is in line with the scale fees published by PSAA. Our fee for the audit of the Authority's wholly owned subsidiary (NuPlace Ltd) and additional consolidation work is £10,658 (£10,658 2016/17). **See page 16 for more details.**

Introduction

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2017/18 presented to you in April 2017, 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, the National Audit Office's Code of Audit Practice and the PSAA Statement of Responsibilities.

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

01 | Financial statements :
Providing an opinion on your accounts. We also review the Annual Governance Statement and Narrative Report and report by exception on these; and

02 | 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. Any change to our identified risks will be reporting to the Audit Committee.

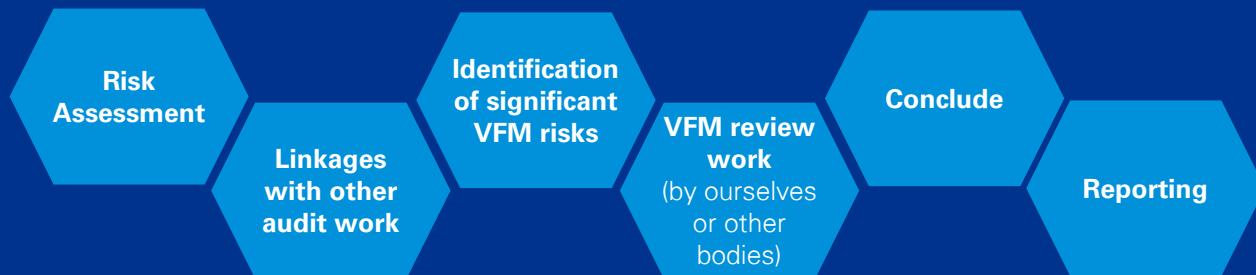
Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified 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 10 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for 2017/18 and the findings of our VFM risk assessment.



Financial statements audit planning

Financial Statements Audit Planning

Our planning work takes place during October 2017 to January 2018. This involves the following key aspects:

- Determining our materiality level;
- Risk assessment;
- Identification of significant risks;
- Consideration of potential fraud risks;
- Identification of key account balances in the financial statements and related assertions, estimates and disclosures;
- Consideration of management's use of experts; and
- Issuing this audit plan to communicate our audit strategy.

Risk assessment

Auditing 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.

01

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.

02

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.

Financial statements audit planning (cont.)

Significant Audit Risks

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

Risk:	Valuation of PPE <p>The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years.</p> <p>This creates a risk that the carrying value of those assets not revalued in the year differs materially from the year end fair value.</p>
Approach:	<p>We will review the approach that the Authority has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. We will also assess the risk of the valuation changing materially during the year.</p> <p>In addition, we will consider movement in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values have moved materially over that time.</p> <p>In relation to those assets which have been revalued during the year we will assess the valuer's qualifications, objectivity and independence to carry out such valuations and review the methodology used (including testing the underlying data and assumptions).</p>

Financial statements audit planning (cont.)

Significant Audit Risks (cont.)

Risk:	<p>Pension Liabilities</p> <p>The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of Shropshire County Pension Fund, which had its last triennial valuation completed as at 31 March 2016. The triennial valuation forms an integral basis of the accounting valuation as at 31 March 2018.</p> <p>The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions and actuarial methodology that results in the Authority's overall valuation.</p> <p>There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The assumptions should be derived on a consistent basis year to year, or updated to reflect any changes.</p> <p>There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact on the net pension liability accounted for in the financial statements.</p>
Approach:	<p>We will review the controls that the Authority has in place over the information sent directly to the scheme actuary. We will also liaise with the auditors of the Pension Fund in order to gain an understanding of the effectiveness of those controls operated by the Pension Fund. This will include consideration of the process and controls over the assumptions used in the valuation. We will also evaluate the competency, objectivity and independence of the scheme actuary.</p> <p>We will review the appropriateness of the key assumptions included within the valuation, compare them to our expected ranges, and consider the need to check the assumptions with a KPMG Actuary. We will review the methodology applied in the valuation by the scheme actuary.</p> <p>In addition, we will review the overall Actuarial valuation and consider the disclosures in the financial statements.</p>

Financial statements audit planning (cont.)

Significant Audit Risks (cont.)

Risk:	<p>Faster Close</p> <p>In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, the revised deadlines require draft accounts by 31 May and final signed accounts by 31 July.</p> <p>These changes represent a significant change to the timetable that the Authority has previously worked to. The time available to produce draft accounts has been reduced by one month and the overall time available for completion of both accounts production and audit is two months shorter than in prior years.</p> <p>In order to meet the revised deadlines, the Authority may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. In addition, there are a number of logistical challenges that will need to be managed. These include:</p> <ul style="list-style-type: none">— Ensuring that any third parties involved in the production of the accounts (e.g. valuers, actuaries) are aware of the revised deadlines and have made arrangements to provide the output of their work on time;— Revising the closedown and accounts production timetable in order to ensure that all working papers and other supporting documentation are available at the start of the audit process;— Ensuring that the Audit Committee meeting schedules have been updated to permit signing in July; and— Potentially applying a shorter paper deadline to the July meeting of the Audit Committee meeting in order to accommodate the production of the final version of the accounts and our ISA 260 report. <p>In the event that the above areas are not effectively managed there is a risk that the audit will not be completed by the 31 July deadline.</p>
Approach:	<p>We will continue to liaise with officers in preparation for our audit in order to understand the steps that the Authority is taking in order to ensure it meets the revised deadlines. We will also look to advance audit work into our interim visit in March in order to streamline the year end audit work.</p> <p>Where there is greater reliance upon accounting estimates we will consider the assumptions used and challenge the robustness of those estimates.</p>

Financial statements audit planning (cont.)

Materiality

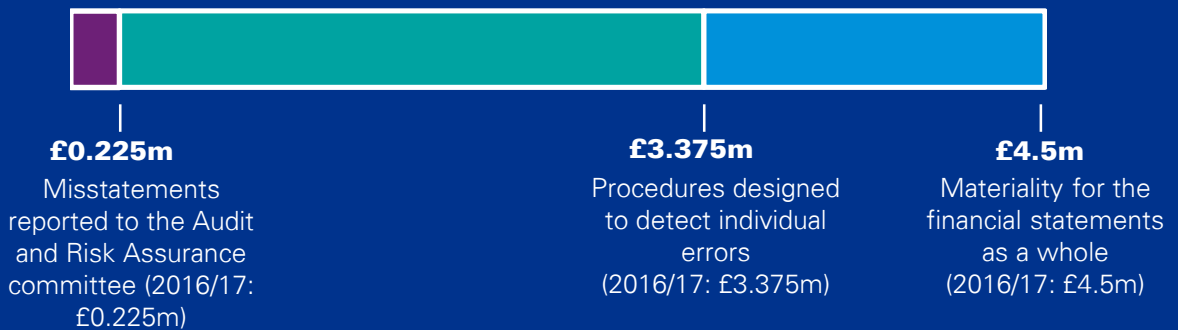
We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment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

For the Council, materiality for planning purposes has been set at £4.5 million, which equates to approximately 1% percent of gross expenditure.

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

Prior Year Gross Expenditure: £462.64m



Financial statements audit planning (cont.)

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'. 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 £225 thousand.

If management has 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.

We will report:



Non-Trivial corrected audit misstatements



Non-trivial uncorrected audit misstatements



Errors and omissions in disclosure
(Corrected and uncorrected)

Value for money arrangements work

VFM audit approach

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.'

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.

The VFM approach is fundamentally unchanged from that adopted in 2016/17 and the process is shown in the diagram below. The diagram overleaf shows the details of the sub-criteria for our VFM work.



Value for money arrangements work (cont.)

Value for Money sub-criterion

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.

Value for money arrangements work (cont.)

VFM audit stage



VFM audit risk assessment

Audit approach

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 *Code of Audit Practice*.

In doing so we consider:

- 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

Audit approach

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.

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.



Identification of significant risks

Audit approach

The Code identifies a matter as significant '*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.*'

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:

- 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



Assessment of work by other review agencies, and Delivery of local risk based work

Audit approach

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.

We will also consider the evidence obtained by way of our financial statements audit work and other work already undertaken.

If evidence from other inspectorates, agencies and bodies is not available and our other audit work is not sufficient, we will 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:

- Additional meetings with senior managers across the Authority;
- Review of specific related minutes and internal reports;
- Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.



Concluding on VFM arrangements

Audit approach

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.

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.



Reporting

Audit approach

On the following page, we report the results of our initial risk assessment.

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.

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.

Value for money arrangements work (cont.)

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.

Risk:	Delivery of budgets <p>The Authority's proposed budget for 2018/19 will be presented to the Council in March 2018, 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 2019/20 and 2020/21 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.</p> <p>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.</p>
Approach:	As part of our additional risk based work, we will review the controls the Authority has in place to ensure financial resilience, specifically that 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.
VFM Sub-criterion:	This risk is related to the following Value For Money sub-criterion <ul style="list-style-type: none">— Informed decision making;— Sustainable resource deployment; and— Working with partners and third parties

Other matters

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 2017/18 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.



Other matters

Reporting and communication

Reporting is a key part of the audit process, both in communicating the audit findings for the year, and 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 2017/2018 presented to you in April 2017 first set out our fees for the 2017/2018 audit. This letter also set out our assumptions. We have not considered it necessary to seek approval for any changes to the agreed fees at this stage.

Should there be a need to charge additional audit fees then this will be agreed with the s.151 Officer and PSAA. If such a variation is agreed, we will report that to you in due course.

The planned audit fee for 2017/18 is £117,119, consistent with the 2016/2017 fee of £117,119.

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 2016/17 this was £808. The fee communicated also did not include the audit of the Authority's wholly owned subsidiary (NuPlace Ltd). In 2016/17 this was £9,850. We expect the 2016/17 fee for both the additional consolidation work, and audit of NuPlace Ltd 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 £127,777 (2015/16 actual fee £127,777).

The planned certification fee for the Housing Benefit Grant Claim in 2017/18, as confirmed by the PSAA, is £9,239 (2015/16 £7,155).

Appendix 1:

Key elements of our financial statements audit approach

Audit workflow

Planning

- Determining our materiality level;
- Risk assessment;
- Identification of significant risks;
- Consideration of potential fraud risks;
- Identification of key account balances in the financial statements and related assertions, estimates and disclosures;
- Consideration of management's use of experts; and
- Issuing this audit plan to communicate our audit strategy.

Control evaluation

- Understand accounting and reporting activities;
- Evaluate design and implementation of selected controls;
- Test operating effectiveness of selected controls; and
- Assess control risk and risk of the accounts being misstated.

Substantive testing

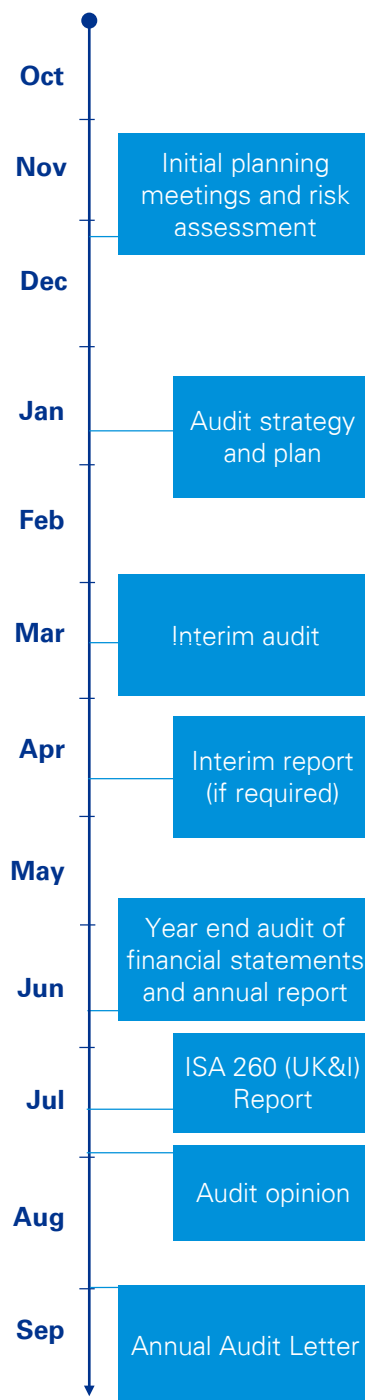
- Plan substantive procedures;
- Perform substantive procedures; and
- Consider if audit evidence is sufficient and appropriate.

Completion

- Perform completion procedures;
- Perform overall evaluation;
- Form an audit opinion; and
- Audit and Risk Assurance Committee reporting.

Communication

Continuous communication involving regular meetings between Audit and Risk Assurance Committee, Senior Management and audit team.



Appendix 2:

Audit team

Your audit team has been drawn from our specialist public sector assurance department. Our audit team were all part of the Telford & Wrekin Council Audit last year.

Ian Pennington

Director

T: 029 2046 8087
E: ian.pennington@kpmg.co.uk

Ian's role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.

Ian will be the main point of contact for the Audit Committee and Corporate Directors.

Mark Breese

Manager

T: 0121 232 3250
E: mark.breese@kpmg.co.uk

Mark will provide quality assurance for the audit work and lead on any technical accounting and risk areas.

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.

James Keen

Assistant Manager

T: 0121 232 3268
E: james.keen@kpmg.co.uk

James will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.

Appendix 3:

Independence and objectivity requirements

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF TELFORD AND WREKIN COUNCIL

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Ltd's ('PSAA's') Terms of Appointment relating to independence and the requirements of the FRC Ethical Standard and General Guidance Supporting Local Audit (Auditor General Guidance 1 – AGN01) issued by the National Audit Office ('NAO').

This Appendix is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Appendix 3:

Independence and objectivity requirements (cont.)

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the authority and its affiliates for professional services provided by us during the reporting period.

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out in the following table

Analysis of Non-audit services for the year ended 31 March 2018

Description of scope of services	Potential threat to auditor independence and associated safeguards in place	Fee
We carry out certification work on the Housing Benefits Subsidy and Teachers Pension returns.	<p>Self-interest: These engagements are performed under externally specified work programs. The work has no perceived or actual impact on the audit team and the audit team resources that will be deployed to perform a robust and thorough audit.</p> <p>Self-review: The financial information included in the grant claim submissions is not extracted from the financial statements, but is compiled separately. The work is undertaken at various points throughout the year and is not linked to the financial statements reporting process. Therefore, it does not impact on our opinion and we do not consider that the outcome of this work will be a threat to our role as external auditors.</p> <p>Management threat: All decisions are made Council.</p> <p>Familiarity: This threat is limited given the scale, nature and timing of the work.</p> <p>Advocacy: We will not act as advocates for the Council in any aspect of this work.</p> <p>Intimidation: Not applicable</p>	£12,239

Appropriate approvals have been obtained from PSAA for all non-audit services above the relevant thresholds provided by us during the reporting period. In addition, we monitor our fees to ensure that we comply with the 70% non-audit fee cap set by the NAO.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

KPMG LLP





kpmg.com/uk



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.

© 2018 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.



2018/19 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

1.1 The report updates members on Treasury Management activities during 2017/18 and details the Treasury Strategy recommended to be adopted for 2018/19. 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 financing has generated surplus treasury management returns of more than £11m 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 2018 include allowance for locking in all anticipated financing requirement 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 external financing requirements. 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 loan repayment is 6.4% in the current financial year. This compares to 9.6% for the average unitary authority (half as much again compared to the position at Telford and Wrekin). The Council has increased its external financing requirements 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 loan repayment 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 generates an index linked surplus of around £200k pa the surplus is used to help support front line services.

This report and the Prudential Indicators report, which will be considered by Cabinet on 15 February and Council on 1 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.

1.2 2017/18 Treasury Management Update

The treasury portfolio at the end of December 2017 showed overall net indebtedness of £216.6m (borrowing: £240.1m less investments: £23.5m). Base rates were increased to 0.5% in November 2017 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 higher levels of inflation.

The borrowing strategy for 2017/18 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 4 new loans totalling £40m have been taken. 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 loan repayment charges and other operating costs.

The overall investment strategy for 2017/18 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 2017 was 0.19% compared to a benchmark return for the period of 0.19%. A schedule of short-term investments is shown at Appendix F.

The Markets in Financial Instruments Directive II (MIFID II) came into place on 3 January 2018 and the Council has opted to be categorised as a professional client which allows access to financial services and advice it may otherwise be unable to obtain (such as advice from Arlingclose, our treasury advisors). As part of the regulations, the authority must hold an investment balance of at least £10m.

1.3 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 £43.3m in 2018/19 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 external financing, 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. We would generally anticipate holding investments of at least £10m to meet cash flow requirements (and would therefore be compliant with MIFID II requirements for professional investor status). 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 Overall the policy is in line with that previously agreed. It should be noted however that the Department for Communities and Local Government (DCLG) issued a consultation paper which closed on 22 December on proposed changes to the Prudential Framework of Capital Finance, which includes proposals which would impact on MRP and is intended to be effective from 1 April 2018. On 11 January 2018, the Municipal Journal reported that the Local Government Association "has called for any changes to be deferred to 2019/20, as implementation from April, as proposed would cause significant problems for councils". Clearly, until the changes are finalised it is not possible to assess any financial implications for the Council. This report therefore seeks a delegation to the Council's Section 151 Officer to make any changes to reflect the final DCLG proposals after consultation with the Chair of the Audit Committee and the Cabinet Member for Finance, Commercial Services & Economic Development.

The report also sets the Prudential Indicators associated with Treasury Management for 2018/19.

It should be noted that there may be some changes to the Treasury Strategy before it is presented to Cabinet on 15 February as further information becomes available. If this is necessary, the final strategy will be circulated to Audit Committee Members for information with any significant changes highlighted.

2. RECOMMENDATIONS

- 2.1** Audit Committee Members are asked to agree the following recommendations which will be presented to Full Council as part of the suite of Service & Financial Planning reports on 1 March 2018:

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 2018/19 together with the associated treasury Prudential Indicators and the Minimum Revenue Provision Statement, which will apply from 2018/19 onwards.
4. Grant delegated authority to the Council's Section 151 Officer, after consultation with the Chair of Audit Committee and the Cabinet Member for Finance, Commercial Services & Economic Development to make any amendments required arising from the proposed changes to the Prudential Framework of Capital Finance.

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 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. 2017/18 TREASURY MANAGEMENT UPDATE

4.1 CURRENT PORTFOLIO POSITION

	31 March 2017	31 Dec 2017
	Principal	Principal
	£m	£m
Fixed Rate Borrowing – PWLB	42.970	80.535
Fixed Rate Borrowing – LOBO	60.000	45.000
Fixed Rate Borrowing – Market	0.000	15.000
Variable Rate Borrowing - market	<u>117.078</u>	<u>99.578</u>
Total External Financing	220,048	240.113
Investments - in-house	<u>26.393</u>	<u>23.532</u>
Total Investments	26.393	23.532
Net Indebtedness	193.655	216.581

4.2 INTEREST RATES

Base rates were increased to 0.5% in November 2017. The Bank of England Quantitative Easing programme remains at £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 2017/18 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 2017 (previous Member update) and 31 December 2017, £156.0m of temporary loans have been raised in order to fund short-term cash flow requirements at various points. Interest rates have ranged from 0.20% to 0.45% - interest rates have remained fairly low during this time. £99.578m of this temporary borrowing was outstanding at 31 December 2017. The following longer term borrowing has been undertaken since June 2017 with a view to slowly locking in to some longer-term fixed interest rates.

Date	Loan	Period	Amount	Interest Rate
1/06/17	PWLB EIP	10 years	£10,000,000	1.20%
8/09/17	PWLB EIP	20 years	£10,000,000	1.87%
21/12/17	PWLB EIP	20 years	£10,000,000	2.03%

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

The majority of funds are invested by the Council's own officers in order to maximise returns from day to day cash flows. During the year the Council has invested £3m in Money Market Funds which provide an alternative to call-accounts providing broader diversification and slightly higher yields.

In total £1,426m of investments were placed between 1 June and 31 December. Interest rates have ranged from 0.0% to 0.40% and periods ranged from overnight deposits to 10 days. £23.532m in house temporary investments were held at 31 December 2017.

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 0.19% compared to a benchmark return for the period of 0.19%.

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 £6.9m with Lloyds Bank (29% 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 two drawdowns in 2017/18 which were undertaken in September. The drawdowns consisted of a finance leases from JCB Finance totalling £0.025m and funded the purchase of ICT equipment and a combination mower over five years.

5. TREASURY STRATEGY FOR 2018/19 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 2018/19
- Annual Investment Strategy for 2018/19
- Prudential Indicators for 2018/19, 2019/20, 2020/21 and 2021/22
- 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 2018/19 will be the UK's progress in negotiating its exit from the European Union and agreeing future trading

arrangements. The domestic economy has remained relatively robust since the outcome of the 2016 referendum, but there are indications that uncertainty over the future is now weighing on growth. Transitional arrangements may prevent a cliff-edge, but will also extend the period of uncertainty for several years. Economic growth is therefore forecast to remain sluggish throughout 2018/19.

Consumer price inflation reached 3.0% in September 2017 as the post-referendum devaluation of sterling continued to feed through to imports. Unemployment continued to fall and the Bank of England's Monetary Policy Committee judged that the extent of spare capacity in the economy seemed limited and the pace at which the economy can grow without generating inflationary pressure had fallen over recent years. With its inflation-control mandate in mind, the Bank of England's Monetary Policy Committee raised official interest rates to 0.5% in November 2017.

In contrast, the US economy is performing well and the Federal Reserve is raising interest rates in regular steps to remove some of the emergency monetary stimulus it has provided for the past decade. The European Central Bank is yet to raise rates, but has started to taper its quantitative easing programme, signalling some confidence in the Eurozone economy.

Credit outlook: High profile bank failures in Italy and Portugal have reinforced concerns over the health of the European banking sector. Sluggish economies and fines for pre-crisis behaviour continue to weigh on bank profits, and any future economic 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. In addition, the largest UK banks will ringfence their retail banking functions into separate legal entities during 2018. There remains some uncertainty over how these changes will impact upon the credit strength of the residual legal entities.

The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however remain very low.

Interest rate forecast: The Authority's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.50% during 2018/19, following the rise from the historic low of 0.25%. The Monetary Policy Committee re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

Future expectations for higher short term interest rates are subdued and on-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions. The risks to Arlingclose's forecast are broadly balanced on both sides. The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at **Appendix A**.

For the purpose of setting the budget, it has been assumed that new investments will be made at short term rates and that new long-term loans will be borrowed at an average rate of **3.5%**.

5.1.3 Local Context

The Authority's current level of external financing 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 2021/22. 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 estimates, based on the current Revenue Budget and Capital Programmes, are:

	31/03/17 Actual £m	31/03/18 Estimate £m	31/03/19 Estimate £m	31/03/20 Estimate £m	31/03/21 Estimate £m
Capital Financing Requirement	367.781	425.041	467.774	479.320	481.758
Less: Other long term liabilities (e.g. PFI)	-58.126	-56.274	-54.033	-51.714	-50.506
Borrowing CFR	309.655	368.767	413.741	427.606	431.252
Less: External Borrowing	-220.048	-276.834	-320.121	-334.914	-339.368
Internal Borrowing	89.607	91.933	93.620	92.692	91.884

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 table reflects the amount committed to the commercial schemes but not the amount outstanding.

The row relating to external borrowing includes debt associated with funding the Council's Housing Investment Programme through NuPlace, the Telford Growth Fund/PIP investments, solar farm and other commercial investments totaling over

£120m. 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 £240.113 million of loans, an increase of £20.065 million on the previous year end. The Council also holds £56.274 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 in order to fund the investments in capital projects set out in the capital programme. 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 overall external financing 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 2018/19 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 Municipal Bond Agency
- Other 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
- Registered Housing Providers
- 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. £15m of the LOBOS have remaining options during February and March 2018, 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 £1million and £39 million, and we expect to maintain an investment balance of at least £10 million in the forthcoming year. The Council has invested £3m in Money Market Funds so far this 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 £71 million on 31st March 2018 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 Non-Treasury Investments

Although not classed as treasury management activities and therefore not covered by the CIPFA Code or the CLG Guidance, the Authority may also purchase property for investment purposes and may also make loans and investments for service purposes, for example in [shared ownership housing, as loans to local businesses and landlords, or as equity investments and loans to the Authority's subsidiaries].

Such loans and investments will be subject to the Authority's normal approval processes for revenue and capital expenditure and need not comply with this treasury management strategy.

The Authority's existing non-treasury investments are listed in Appendix B.

5.4 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)

5.5 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.

5.6 Balanced Budget Requirement

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

5.7 2018/19 MRP Statement

5.7.1 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.

5.7.2 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 2018/19: 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 2018/19 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.

5.7.5 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.

5.8 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 2018.

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
Ed Rushton, Principal Accountant (01952 383750
Bernie Morris, Group Accountant (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	%	31/03/18 Estimate £m	31/03/19 Estimate £m	31/03/20 Estimate £m	31/03/21 Estimate £m	31/03/22 Estimate £m
External Borrowing:							
Fixed Rate – PWLB	80.5	27	60.5	156	173.2	178.9	173
Fixed Rate – LOBO	45	15	45	45	45	45	45
Fixed Rate – Market	15	5	15	15	15	15	15
Variable Rate – PWLB	0	0	0	0	0	0	0
Variable Rate – Market	99.6	34	100	50	50	50	50
Total External Borrowing	240.1	81	220.5	266	283.2	288.9	283
IFRS Long Term Liabilities:							
PFI	55.5	19	55.5	53.3	50.9	49.7	50.6
Finance Leases	0.8	0	0.8	0.8	0.8	0.8	0.8
Total Gross External Debt	296.4	100	276.8	320.1	334.9	339.4	334.4
Investments:							
Managed in-house	0	0	0	0	0	0	0
Short-term monies (Deposits/ monies on call /MMFs)	23.5	100	0	0	0	0	0
Long-term investments <i>(maturities over 12 months)</i>	0	0	0	0	0	0	0
Total Investments	23.5	100	0	0	0	0	0
(Net Borrowing Position) / Net Investment Position	-272.9		-276.8	-320.1	-334.9	-339.4	-334.4
Non-treasury Investments:							
Investment Properties <i>(asset register value)</i>	71.6	77	101.7	114.3	116.9	116.9	116.9
Share in Subsidiaries	6.5	7	6.5	6.5	6.5	6.5	6.5
Loans to Subsidiaries	14.5	16	29.4	46.5	53.2	54.7	54.7
Total non-treasury investments	92.6	100	137.6	167.3	176.6	178.1	178.1
Total Investments	-180.3		-139.2	-152.8	-158.3	-161.3	-156.3

**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	17/18 Approved £m	17/18 Revised £m	18/19 Estimate £m	19/20 Estimate £m	20/21 Estimate £m	21/22 Estimate £m
Total	76.843	101.653	84.667	46.802	20.403	0.500

**if applicable*

3.2 Capital expenditure will be financed or funded as follows:

Capital Financing	17/18 Approved £m	17/18 Revised £m	18/19 Estimate £m	19/20 Estimate £m	20/21 Estimate £m	21/22 Estimate £m
Capital receipts	7.865	7.440	10.943	6.743	10.412	5.500
Government Grants	16.667	24.257	17.019	20.130	5.130	0.000
Revenue / External contributions	12.485	13.170	13.418	5.145	0.407	0.000
Total Financing	37.027	44.867	41.380	32.009	15.949	5.500
Supported borrowing	0.000	0.007	0.000	0.000	0.000	0.000
Unsupported borrowing	39.816	56.779	43.287	14.793	4.454	-5.000
Total Funding	39.816	56.786	43.287	14.793	4.454	-5.000
Total Financing and Funding	76.843	101.653	84.667	46.802	20.403	0.500

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	17/18 Approved %	17/18 Revised %	18/19 Estimate %	19/20 Estimate %	20/21 Estimate %	21/22 Estimate %
Total	6.60	3.83	7.45	8.04	8.77	8.79

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	17/18 Approved £m	17/18 Revised £m	18/19 Estimate £m	19/20 Estimate £m	20/21 Estimate £m	21/22 Estimate £m
Total CFR	417.539	425.041	467.774	479.320	481.758	476.834

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 31/03/17	£m
Borrowing	220.048
Other Long-term Liabilities	58.126
Total	278.174

7. Incremental Impact of Capital Investment Decisions:

7.1 This is an indicator of affordability that shows the impact of new 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	17/18 Approved £	18/19 Estimate £	19/20 Estimate £	20/21 Estimate £	21/22 Estimate £m	22/23 Estimate £m
Increase in Band B Council Tax	1.84	0.74	1.26	2.10	3.48	3.48

7.2 The increase in Band B council tax reflects the increases in the provision for Capital Financing Charges of £0.222m by 2021/22 to undertake additional borrowing of £4.397m 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	17/18 Approved £m	17/18 Revised £m	18/19 Estimate £m	19/20 Estimate £m	20/21 Estimate £m	21/22 Estimate £m
Borrowing	350	350	440	450	450	450
Other Long-term Liabilities	61	61	61	60	59	58
Total	411	411	501	510	509	508

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	17/18 Approved £m	17/18 Revised £m	18/19 Estimate £m	19/20 Estimate £m	20/21 Estimate £m	21/22 Estimate £m
Borrowing	330	330	420	430	430	430
Other Long-term Liabilities	60	60	59	58	57	56
Total	390	390	479	488	487	486

9. Adoption of the CIPFA Treasury Management Code:

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

Adoption of the CIPFA Code of Practice in Treasury Management

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

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

10. Gross Debt and the Capital Finance Requirement

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

Gross and Net Debt	17/18 Estimated £m	18/19 Authorised £m	19/20 Authorised £m	20/21 Authorised £m	21/22 Authorised £m
Outstanding Borrowing (at nominal value)	276.834	320.121	334.914	339.368	334.368
Other Long-term Liabilities (at nominal value)	56.274	54.033	51.714	50.506	51.355
Gross Debt	333.108	374.154	386.628	389.874	385.7230

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.

	Existing level (or Benchmark level) at 31/03/17 %	17/18 Approved %	17/18 Revised %	18/19 Estimate %	19/20 Estimate %	20/21 Estimate %	21/22 Estimate %
Upper Limit for Fixed Interest Rate Exposure	100	100	100	100	100	100	100
Upper Limit for Variable Interest Rate Exposure	70	70	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 31/03/17) %	Lower Limit for 18/19 %	Upper Limit for 18/19 %
under 12 months	40 (54)	0	70
12 months and within 24 months	4 (1)	0	30
24 months and within 5 years	6 (2)	0	50
5 years and within 10 years	8 (2)	0	75
10 years and within 20 years	6 (2)	0	75
20 years and within 30 years	0 (0)	0	75
30 years and within 40 years	10 (11)	0	100
40 years and within 50 years	9 (10)	10	100
50 years and above	17 (18)	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	17/18 Approved %	17/18 Revised %	18/19 Estimate %	19/20 Estimate %	20/21 Estimate %	21/22 Estimate %
	95	95	95	95	95	95

Appendix D – Arlingclose Economic & Interest Rate Forecast November 2017

Underlying assumptions:

- In a 7-2 vote, the MPC increased Bank Rate in line with market expectations to 0.5%. Dovish accompanying rhetoric prompted investors to lower the expected future path for interest rates. The minutes re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.
- Further potential movement in Bank Rate is reliant on economic data and the likely outcome of the EU negotiations. Policymakers have downwardly assessed the supply capacity of the UK economy, suggesting inflationary growth is more likely. However, the MPC will be wary of raising rates much further amid low business and household confidence.
- The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. While recent economic data has improved, it has done so from a low base: UK Q3 2017 GDP growth was 0.4%, after a 0.3% expansion in Q2.
- Household consumption growth, the driver of recent UK GDP growth, has softened following a contraction in real wages, despite both saving rates and consumer credit volumes indicating that some households continue to spend in the absence of wage growth. Policymakers have expressed concern about the continued expansion of consumer credit; any action taken will further dampen household spending.
- Some data has held up better than expected, with unemployment continuing to decline and house prices remaining relatively resilient. However, both of these factors can also be seen in a negative light, displaying the structural lack of investment in the UK economy post financial crisis. Weaker long term growth may prompt deterioration in the UK's fiscal position.
- The depreciation in sterling may assist the economy to rebalance away from spending. Export volumes will increase, helped by a stronger Eurozone economic expansion.
- Near-term global growth prospects have continued to improve and broaden, and expectations of inflation are subdued. Central banks are moving to reduce the level of monetary stimulus.
- Geo-political risks remains elevated and helps to anchor safe-haven flows into the UK government bond (gilt) market.

Forecast:

- The MPC has increased Bank Rate, largely to meet expectations they themselves created. Future expectations for higher short term interest rates are subdued. On-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions.

- Our central case for Bank Rate is 0.5% over the medium term. The risks to the forecast are broadly balanced on both sides.
- The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.19
Arlingclose Central Case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	0.00	0.00	0.00	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.15
3-month LIBID rate														
Upside risk	0.10	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.22
Arlingclose Central Case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	-0.10	-0.10	-0.15	-0.15	-0.15	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.20
1-yr LIBID rate														
Upside risk	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.27
Arlingclose Central Case	0.70	0.70	0.70	0.70	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.77
Downside risk	-0.15	-0.20	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.15	-0.15	-0.26
5-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.32
Arlingclose Central Case	0.75	0.75	0.80	0.80	0.80	0.85	0.90	0.90	0.95	0.95	1.00	1.05	1.10	0.89
Downside risk	-0.20	-0.20	-0.25	-0.25	-0.25	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.33
10-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.32
Arlingclose Central Case	1.25	1.25	1.25	1.25	1.25	1.30	1.30	1.35	1.40	1.45	1.50	1.55	1.55	1.36
Downside risk	-0.20	-0.25	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.33
20-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.32
Arlingclose Central Case	1.85	1.85	1.85	1.85	1.85	1.90	1.90	1.95	1.95	2.00	2.05	2.05	2.05	1.93
Downside risk	-0.20	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.38
50-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.32
Arlingclose Central Case	1.70	1.70	1.70	1.70	1.70	1.75	1.80	1.85	1.90	1.95	1.95	1.95	1.95	1.82
Downside risk	-0.30	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.39

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 31/12/17 £m
Term Deposits / CDs / Call Accounts	UK	Santander UK Plc (Banco Santander Group)	15	15	0
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	6.9
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	6.8
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 2017.*

SUMMARY OF INVESTMENTS**TOTAL RISK PER COUNTERPARTY AS AT 31 DECEMBER 2017**

	CREDIT RATING	TOTAL £000
<u>Fixed Deposits</u>		
Svenska Handelsbanken	Sweden AAA F1+ AA-	2 6,800
Lloyds	UK AAA F1 A+	5 6,899
	UK	
Debt Management Office	Government	6,800
Money Market Funds	UK AAA	3,000
TOTAL- CASH DEPOSITS		23,499
Shropshire Waste Management		33
TOTAL INVESTMENTS		23,532

<u>SUMMARY BY SOVEREIGN RATING</u>	<u>£000</u>	<u>%</u>
UK AAA	16,732	71
Sweden AAA	6,800	29
Total	23,532	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 plc (parent of Barclays Bank)
- HSBC Holding plc (parent of HSBC plc)
- Lloyds Banking Group (parent of Bank of Scotland plc and Lloyds Bank plc)
- Royal Bank of Scotland
- Standard Chartered plc
- 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' 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.
Money Market Fund (MMF)	Mutual funds that invest in short term debt instruments. They offer a higher level of security than banks and interest rates are generally higher.
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. 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 Audit & Governance Team is led by the Audit & Governance Team Leader under the direct management of the Governance & Legal 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.
- 2.3.6 To ensure audit assignments are delivered to measure the effectiveness of risk management at a local level.

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

- 2.3.7 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 Audit & Governance Team Leader is the Council's Chief Audit Executive as defined in the PSIAS.
- 2.4.2 The Audit & Governance Team Leader is line managed by the Council's Deputy Monitoring Officer but has unfettered access to the Managing Director, the CFO and all senior managers within the Council.
- 2.4.3 The Audit & Governance Team Leader has responsibility for non-audit services including Information Governance, Insurance Services and the Corporate Investigations Team. The Audit & Governance Team Leader 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 Deputy Monitoring/Monitoring Officer.
- 2.4.4 The Audit & Governance Team Leader in conjunction with the Governance & Legal 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 Audit & Governance Team Leader;
 - 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 Audit & Governance Team Leader will form and evidence his opinion on the control environment to support the Annual Governance Statement.

- 2.5.1 The Audit & Governance Team Leader 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 Audit & Governance Team Leader 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 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 2018/19 the Internal Audit team has a resource of 3.98 full time equivalent (fte) employed staff plus at least 50% of the Audit & Governance Team Leader. 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 PURPOSE

- 1.1 To update members on the work of Internal Audit during quarters two and three – July – December 2017
- 1.2 For members to consider and approve the Internal Audit Charter 2018-19

2 RECOMMENDATIONS

- 2.1 That members of the Audit Committee note the information contained in this report.
- 2.2 Approve the Internal Audit Charter attached as Appendix 5.

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 2017/18 in respect to quarters two and three – July – December 2017 and the updated Internal Audit Charter for 2018/19 for approval by the Committee.

4 PREVIOUS MINUTES

Audit Committee: 30 June 2016
 20 September 2016
 31 January 2017
 27 June 2017
 19 September 2017

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 2017 and provides an update on the progress of previous audit reports issued (June 2015 to June 2017).
- 5.2 The key focus for the team during quarters two and three has been the 2017/18 planned audits including the fundamental systems audits. The tender exercise for the appointment of the IT auditors, as part of the Staffordshire Framework, to meet the 18/19 IT audit plan is complete. There are 4 successful companies on this framework covering the period from December 2017 – November 2020. It is expected that the 18/19 IT audit plan will be delivered in budget.

- 5.3 Following consultation with auditees and SMT, the format of the internal audit report has changed. Feedback has demonstrated this is now an improved report and is a lot clearer to understand.
- 5.4 The following internal audit update report appendices are attached:
- i) **Appendix 1** – 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 2**– List of all work undertaken for quarters two and three for a period of 1 day or more.
 - iii) **Appendix 3** - Previous graded reports from June 2015 to June 2017 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 4**– Summary of the 1 red and 2 amber reports issued in quarters two and three
 - v) **Appendix 5** – Internal Audit Charter 2018/19
- 5.5 Appendix 1 shows 23 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
Ski & Snowboard Centre	+51%	A lot of testing and issues found (30 recommendations - Red Report)
Off Contract Agency Staff	+ 52%	Additional time taken understanding the system as this was the first audit in this area. Each service area had to be visited to undertake testing.
My Options	+14%	Additional time taken understanding the system as this was the first audit in this area.
Transfer of Libraries & Markets	-28%	Not as much testing as first envisaged.
Lawley Primary	-14%	School were very well prepared and all records were collated for us
Old Park Primary	-13%	School were very well prepared and all records were collated for us
Personal Transport Budget	+20%	It was a new area that had not been audited before
Wellington Leisure Centre	+54%	A lot of testing and issues found (Amber report)
Council Tax/NNDR	+36%	Training for member of staff who has never audited this area. New requirement by KPMG to obtain evidence of all reports used as part of audit testing.

The reasons for the variances are explained above and the scopes and time allocations for remaining 2017/18 audits have been informed by this information and will be closely monitored. The information will also inform 2018/19 audit plan.

- 5.6 From Appendix 1 there were 1 red and 2 amber reports issued during quarters two and three. A summary of each report is provided in Appendix 4. For these red/amber reports management actions and time scales were agreed to implement the recommendations. Internal Audit is confident that management will continue to implement the recommendations for these reports and all other agreed reports to provide appropriate assurance and improved controls.

5.7 Areas of more than 10 days from Appendix 2 are explained below:

Audit Area	Days	Explanation
Council tax / NNDR (2017 - 2018)	51	Fundamental audit
Deprivation of Liberties Safeguards	15	New area – complex and lots of issues found.
Purchase Ledger 2017/18	22	Fundamental audit
Sales Ledger 2017/18	13	Fundamental audit
Wellington Civic Leisure Centre	13	Establishment audit, lots of testing

5.8 From Appendix 3 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 (Leaving Care)	Amber	Amber	Postponed at request of SDM due to turnover of key staff. Scope issued. Audit to be undertaken quarter 1
2	Children's Arrangement orders	Amber	Amber	3rd follow up complete – remains an amber. Further follow up to be undertaken March 2018
3	Control of Privileged User and Tools*	Amber	Amber	1 st follow up complete remained amber. 2 nd follow up planned January 2018
4	Children in Care Personal Savings	Amber	Amber	1 st follow up complete remains amber, further follow up to be completed January 2018

5.9 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

5.10 The Audit & Governance Team Leader 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 2 and 3 (quarter 3 due by end January 2017).

5.11 For audits of the accounts from 2018/19, the PSAA is responsible for appointing an auditor to principal local government and police bodies that have chosen to opt into its national auditor appointment arrangements. The PSAA wrote to the Council on the 14 August 2017 to consult on the proposed appointment of Grant Thornton (UK) LLP as the external auditor of Borough of Telford and Wrekin from 2018/19. Then on the 19 December 2017 the PSAA wrote to the Council to confirm that Grant Thornton (UK) LLP were the appointed external auditors.

6 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 & Governance are operating within budget for 2017/18. Costs associated with audit recommendations will be identified by Services when proposals to comply are reported. RP-2.1.18
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.

7 BACKGROUND PAPERS

Annual Audit Plan 2017/18 and Charter

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

CIPFA Local Government Application Note – April 2013

Accounts and Audit Regulations – 2015

Report by: Suzanne Dodd - Governance & Legal SDM. Telephone: 380014 and Rob Montgomery – Audit & Governance Team Leader Telephone 383103

FINAL REPORTS ISSUED QUARTERS TWO AND THREE – JULY TO DECEMBER 2017

Audit Area	Opinion	Follow Up Due	Days allocated	Days Taken	Variance %
Ski & Snowboard Centre	Red	October 2017	8	12.1	+51%
Off Contract Agency Staff	Amber	March 2018	5.5	8.4	+52%
Wellington Leisure Centre	Amber	May 2018	8	12.3	+54%
High Ercall Primary	Yellow	January 2018	8.25	7.9	-0.4%
Dothill Primary	Green	N/A	8.25	7.4	-0.10%
Intermediaries (IR35)	Green	N/a	5.5	5.7	+0.04%
My Options	Yellow	February 2018	10	11.4	+0.14%
Treasury	Green	N/a	10	9.6	-0.04%
William Reynolds Primary	Yellow	March 2018	8.25	7.9	-0.04%
Madeley Nursery	Yellow	March 2018	8.25	7.4	-0.10%
Transfer of libraries	Yellow	n/a	8	5.78	- 28%
Transfer of markets	yellow	n/a			
Lawley Primary	Green	N/A	8.25	7.1	-0.14%
Old Park Primary	Green	N/A	8.25	7.2	-0.13%
Cash Collection Income Management	Green	2018-19 Audit	20	18	-0.10%
Cash Collection Events	Green	2018-19 Audit			
Cash Collection Gypsies & Travellers	Yellow	2018-19 Audit			
Cash Collection Fleet	Green	2018-19 Audit			
Personal Transport Budget	Yellow	May 2018	5	6	+0.20%
St Marys Catholic Primary	Yellow	May 2018	8.25	7.4	-0.10%
Coalbrookdale & Ironbridge	Yellow	May 2018	8.25	7.6	-0.07%
Wrockwardine Wood Infants	Green	N/A	8.25	7.4	-0.10%
Council Tax/NNDR	Green	N/A	38	51.5	+36%

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

AUDIT AREA	DAYS
Advice & Consultancy including org change	7
Benefits 2017/18	9
Bus Subsidy Grant	3
Cash Collection (2017-2018)	7
Coalbrookdale & Ironbridge Primary School	8
Core Group	2
Council tax / NNDR (2017 - 2018)	51
Deprivation of Liberties Safeguards	15
Discharge from Hospital	8
Dothill Primary School	7
External IT Audit Procurement	5
General Ledger - Fixed Asset Module	2
General Ledger 2017/18	5
HR & Payroll 2017/18	5
Intermediaries / Agency Workers (HMRC Toolkit requirements)	3
Lawley Primary School	7
Madeley Nursery	7
My Options	2
National Fraud Initiative	2
Nuplace	3
Off Contract Agency Workers	4
Old Park Primary School	7
Personal Transport Budget	6
Planning / Governance Arrangements	7
Purchase Ledger 2017/18	22
Review of Contracts	2
Risk Management 2017/18	1
Sales Ledger 2017/18	13
Setting up Home Grant	2
Ski Centre	1
Ski Centre Follow Up	2
St Lukes RC Primary School	7
St Marys Primary School	8
Strengthening Families Grant	2
Telford 50	1
Telford Bike Hub	1
Tell us Once	4
Transfer of Facilities (Markets, Community C. & Libraries)	2
Transport Grant Certification	2
Treasury Management (2017 - 2018)	7
Wellington Civic Leisure Centre	13
West Rd / Granville House Follow Up	1
William Reynolds Primary School	1
Wrockwardine Wood Infants School	7

STATUS ON FINAL REPORTS ISSUED JUNE 2015 TO JUNE 2017 AS AT 30/10/17

APPENDIX 3

Audit	Original Opinion	Updated Opinion	Previous Comments	Status as at 15/12/17
Setting Up home Grant (Leaving Care)	Amber	Amber/ New audit 17/18	To be undertaken 2017/18 plan	Postponed at request of SDM due to turnover of key staff. Scope issued. Audit to be undertaken qtr 1
Transport (adults)	Amber	Yellow	Deferred until quarter 3 due to delay in consultation period	3 rd follow up undertaken, now a yellow grading
Pre & Post 16 Transport for Education and Training	Amber	Yellow	Deferred until quarter 3 due to delay in consultation period	complete
Direct payments follow up (Personal budgets)	Red	Yellow/ New audit 17/18	New audit to be undertaken December 2017	New audit to be undertaken qtr 4 (Jan- Mar)
Supervision Policy Review	Amber	Yellow	2 nd follow up complete moved to yellow 3 rd follow up to be completed	3 rd follow up in progress
Core Groups	Amber	Green	2 nd follow up complete moved to yellow 3 rd follow up to be completed	3 rd follow up was completed moved to green. New audit in progress, at the request of the service area.
West Road & Petty Cash	Amber	Green	3 rd follow up complete moved to yellow further visit to be undertaken November 2017	Complete moved to Green no further follow up required
Children's Arrangement orders	Amber	Amber	Follow up to be undertaken September	3 rd follow up undertaken, remains amber
Temporary accommodation	Amber	Yellow	3 rd Follow up to be undertaken September	Complete
Assistive Technology	Yellow	Yellow	1 st follow up completed remains yellow further follow up to be completed	Remains yellow follow up complete
Corporate lease	Yellow	Green	Follow up in progress	Complete

Audit	Original Opinion	Updated Opinion	Previous Comments	Status as at 15/12/17
Lilleshall Primary	Yellow	Green	Follow up in progress	complete
Oakengates Leisure Centre	Yellow	Green	1 st follow up completed remains yellow 2 nd follow up to be completed	Follow up complete
Transition Process	Yellow	yellow	1 st follow up completed remains yellow 2 nd follow up to be completed	2 nd follow up due January 2018
Personal Safety Precaution (PSP) Register processes	Yellow	Green	Follow up in progress	Follow up undertaken November 2017 all agreed actions implemented so regraded to Green - no further follow up
Anti-Virus Arrangements*	Amber	yellow	1 st follow up complete regraded to yellow. 2 nd follow up planned January 2018	See Previous comment
Control of Privileged User and Tools*	Amber	Amber	1 st follow up complete remained amber. 2 nd follow up planned January 2018	See Previous comment
Software Licensing*	Yellow	Yellow	Follow up in progress	1 st follow up complete remained yellow. 2 nd follow up planned January 2018
Arthog	Amber	Yellow	Follow up in progress	2 nd follow up due Jan 2018
John Fletcher of Madeley	Yellow	Green	Follow up due September 2017	complete
Additional Payments to Foster Carers	Amber		Postponed until September at request of SDM due to turnover of key staff	Follow up in progress
Benefits	Yellow	n/a	To be followed up as part of 2017/18 audit	To be followed up as part of 2017/18 audit
Blue Badge	Yellow	n/a	To be followed up as part of 2017/18 audit	To be followed up as part of 2017/18 audit
Payroll*	Yellow	n/a	To be followed up as part of 2017/18 audit	To be followed up as part of 2017/18 audit
Ice Rink Vending	Yellow	Yellow	Follow up in progress	complete

STATUS ON FINAL REPORTS ISSUED JUNE 2015 TO JUNE 2017 AS AT 30/10/17

APPENDIX 3

ICT Network Management*	Yellow	Yellow	Follow up due September 2017	Follow up undertaken November 2017 remained yellow no further follow up
Shortwood Primary	Yellow	Green	Follow up due September 2017	Follow up complete no further follow up required
CRM ICT Application*	Yellow	Green	Follow up due September 2017	Follow up undertaken October 2017 all agreed actions implemented so regraded to Green - no further follow up
EDMS ICT Application*	Yellow	Green	Follow up due September 2017	Follow up undertaken October 2017 all agreed actions implemented so regraded to Green - no further follow up
General Ledger	Yellow		To be followed up as part of 2017/18 audit	To be followed up as part of 2017/18 audit

REPORTS ISSUED QUARTER 1 – REPORTED TO SEPTEMBER 2017 AUDIT COMMITTEE

Audit	Original Opinion	Updated Opinion	Status as at 15/12/17
Newport Infant	Yellow	Green	Complete
Children in Care Personal Savings	Amber	Amber	1 st follow up complete remains amber, further follow up to be completed
Donnington Wood Infant	Yellow	Green	Complete
Tibberton Primary	Amber	Green	Complete
ICT Disaster Recovery	Yellow Amber	Yellow	1 st follow up complete remained yellow. 2 nd follow up planned February 2018
Central Leisure & Administration	Amber	Green	Second follow up complete moved to green no further follow up required
Purchase ledger	Yellow	n/a	2017-18 audit in progress
Nuplace	Amber	Yellow	1st follow up complete further follow up due March 2018
St Patricks RC Primary School	Yellow	Green	Complete
Moorfield Primary	Yellow	Green	Complete
Records Management	Yellow	n/a	Follow up in progress
Insurance arrangements	Green	Green	no follow up required as green report
GPC	Not graded	n/a	Follow up to be completed
Contract Review - Information And Advice Services Between Borough	Yellow	n/a	Follow up due end of December 2017

STATUS ON FINAL REPORTS ISSUED JUNE 2015 TO JUNE 2017 AS AT 30/10/17

APPENDIX 3

Of Telford & Wrekin And Telford & Wrekin Citizens Advice Bureau (My Choice)			
Hollinswood Primary	Yellow	n/a	Follow up due January 2018 (due late December delay due to school holidays)
Holmer Lake Primary	Yellow	n/a	Follow up due January 2018 (due late December delay due to school holidays)
Customer Contact Centre	Yellow	n/a	Follow up due end of December 2017

APPENDIX 4

AMBER REPORTS ISSUED QUARTER 2 & 3

TELFORD SKI & SNOWBOARD CENTRE

1. Introduction

- 1.1 An audit review commenced¹ on 22nd March 2017, to provide an opinion on the risk, governance and control environment for the Ski Centre and to contribute to the achievement of its objectives and improvement of its processes. This Internal Audit opinion will contribute to the Annual Internal Audit opinion which informs the Council's Annual Governance Statement.
- 1.2 The audit objectives were agreed by Team Leader Telford Ice Rink & Telford Snowboard & Ski Centre. (Scope attached as Appendix A)
- 1.3 We would like to thank the following for their help during the audit:
- Team Leader Telford Ice Rink & Telford Snowboard & Ski Centre
Administrative Assistant

2. Management Summary and Overall Opinion

- 2.1 On the basis of the work carried out (as set out as the audit objectives in the scope) our opinion on the level of assurance provided by the controls managing the risks for this audit area is Poor. The system of control is weak and there is evidence of non-compliance with the controls that do exist.
- 2.2 Recommendations have been made to improve processes, support the achievement of service objectives and the management of risk. These recommendations are set out in section 3 of this report. We have included a risk rating (alongside the category) - High, Medium, and Low- for each recommendation to assist you in the prioritisation of their implementation.

Recommendation Risk Rating	Number	Percentage
High	7	23%
Medium	21	70%
Low	2	7%
Total	30	100%

- 2.3 During the audit we also identified some minor items that did not require recorded recommendations. These are listed in Appendix C.

¹ In accordance with PSIAS Code of Practice for Internal Audit in Local Government

2.4 As part of this audit we have also followed up the implementation of recommendations made in the previous audit (13th September 2013. The table below shows the action taken since that audit:

Recommendation Category	Implemented	Not Implemented *	In progress	Superseded
Legal Requirement	-	1	-	1
Financial Regulation	4	-	-	-
Policy/Procedure	9	4	1	1
Best Practice	-	-	-	-
Total	13	5	1	2

* - these recommendations have been reiterated in this audit.

2.5 The implementation of the recommendations made in this report and those outstanding from the previous review will further strengthen the management of risks, governance and processes at the Ski Centre.

AGENCY OFF CONTRACT STAFF

1. Introduction and Scope

- 1.1 An audit review commenced² in May 2017, at the request of Human Resources to provide an opinion on the risk, governance and control environment for Agency off Contract Staff and to contribute to the service areas objectives and improvement of processes. This Internal Audit opinion will contribute to the Annual Internal Audit opinion which informs the Council's Annual Governance Statement.
- 1.2 The audit objectives were agreed by HR Business Manager. (Scope attached as Appendix A)
- 1.4 We would like to thank the following for their help during the audit :
- ❖ HR Business Manager
 - ❖ HR Business Support Team Leader
 - ❖ Group Manager – My Options
 - ❖ Senior Business Support Officer – Access, Inclusion & Virtual School
 - ❖ Business support Manager – Legal Procurement & Commissioning
 - ❖ Centre Manager - Arthog

2. Management Summary and Overall Opinion

- 2.1 On the basis of the work carried out (as set out as the audit objectives in the scope) our opinion on the level of assurance provided by the controls managing the risks 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.
- 2.2 Recommendations have been made to improve processes, support the achievement of service objectives and the management of risk. These recommendations are set out in section 4 of this report. We have included a risk rating (alongside the category) - 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	4	50%
Low	2	25%
Total	8	100%

- 2.3 The implementation of the recommendations made in this report will further strengthen the management of risks, governance and processes for Agency Off Contract Staff

² In accordance with PSIAS Code of Practice for Internal Audit in Local Government

³ See full explanation attached at the end of this report in Appendix B

WELLINGTON LEISURE CENTRE

1. Management Summary

An audit review commenced⁴ on 11th October 2017, to provide an opinion on the risk, governance and control environment for Wellington Leisure Centre and to contribute to the service areas objectives and improvement of processes. This Internal Audit opinion will contribute to the Annual Internal Audit opinion which informs the Council's Annual Governance Statement. We would like to thank all staff who provided support and assistance during the audit.

<p>AUDIT OPINION</p> <div style="text-align: center; margin-top: 50px;">  <p style="font-size: 24px; font-weight: bold;">Limited</p> </div>	<p>MANAGEMENT SUMMARY</p> <p>Based on objectives tested (<i>See Appendix 2</i>), 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.</p> <p>Recommendations have been made to improve processes, support the achievement of service objectives and the management of risk. These are set out in section 4.</p>						
<p>AREAS OF PARTICULAR CONCERN</p> <p>At the time of the audit the findings determined that there were no areas of particular concern.</p>	<p>RECOMMENDATION RISK RATING</p> <table style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <tr> <td style="background-color: red; color: white; padding: 5px; text-align: center;">High</td> <td style="background-color: yellow; padding: 5px; text-align: center;">Medium</td> <td style="background-color: green; color: white; padding: 5px; text-align: center;">Low</td> </tr> <tr> <td style="background-color: #cccccc; padding: 5px; text-align: center;">3</td> <td style="background-color: #cccccc; padding: 5px; text-align: center;">13</td> <td style="background-color: #cccccc; padding: 5px; text-align: center;">13</td> </tr> </table>	High	Medium	Low	3	13	13
High	Medium	Low					
3	13	13					

⁴ In accordance with PSIAS Code of Practice for Internal Audit in Local Government

AGS ACTION PLAN FOR 2016/17 UPDATE DECEMBER 2017



No	Action	Lead Officer	Original Comments	Status as at December 2017
1.	Continued strategic management of organisational change in respect to “Being the Change”, continued reduced budgets, revised structures and commercial/ business approach which links to the continued development and implementation of revised governance framework.	Managing Director and SMT	<p>“Being the Change” One year on document produced March 2017 and further actions to be taken during 2017/18.</p> <p>As part of the above service and work force planning on target for completion by Spring 2017.</p> <p>Consultation on savings for 2018/19 and 2019/20 proposals will commence during 2017/18.</p>	<p>There is continued development of the organisation.</p> <p>The workforce planning was completed as required. A refresh commences in January 2018.</p> <p>This has commenced and is ongoing.</p>
2.	Preparations for the revised external audit arrangements.	AD Finance & Human Resources/ AD Governance, Procurement & Commissioning	<p>Council has elected into the Sector led body – PSAA – to undertake the procurement on our behalf. A report will be presented to the Audit Committee in September 2017 in respect to the outcome of the procurement process and they will make a recommendation for appointment by full Council by 31/12/17.</p> <p>Planning for revised final accounts deadlines for 2017/18 commenced 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>Continuing to work towards an updated final accounts timetable for 2016/17 onwards.</p>	The PSAA procurement process is complete and our external auditor for 18/19 is Grant Thornton.

No	Action	Lead Officer	Original Comments	Status as at December 2017
3.	<p>Implementation the Workforce Development plan, succession planning and priorities following restructure in Organisational Delivery & Development. Continue to update the management competencies, skills and associated training to meet revised organisational requirements.</p> <p>Review of Human Resources policies and procedures to support the priorities and organisational change.</p>	Managing Director & AD Finance & Human Resources	<p>Learning & Development Manager now in post and leading on this to support the organisation to embed workforce development plans, succession planning/single points of failure (an issue highlighted by several SDM's in their AGS certificates) and training to support management competencies and skills.</p> <p>Human Resources policies have been prioritised and are being revised and renegotiated in line with these priorities.</p>	<p>Corporate Workforce Development Plan has been agreed by SMT.</p> <p>AD's workforce plans are in place.</p> <p>Future Leaders programme is underway.</p> <p>Top 10 L&D needs are being delivered.</p> <p>Leadership & Management programme to commence April 2018.</p> <p>New approach to apprenticeship is in place.</p> <p>Ongoing as per original comment.</p>
4.	Continue to 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	<p>Adult Social Services are now included with Early Help & Support Services. New structures are now in place with further revisions to the operating model coming into effect in 2017. Associated policies and procedures will also be launched in 2017. Service teams are now based in localities alongside other public and voluntary sector services.</p> <p>Teams have been assigned targets linked to the cost improvement plan. These targets will be used to</p>	<p>A comprehensive reporting structure has been developed and is in place whereby, on a monthly basis, there is an officer Cost Improvement Plan meeting chaired by an Assistant Director to review progress.</p> <p>Separately there is a detailed Financial Monitoring Summary produced by the Finance Team and progress is reported to a Managing Director Challenge Group (chaired by the Managing Director with the Director for Children's and Adults Services, two Assistant Directors</p>

No	Action	Lead Officer	Original Comments	Status as at December 2017
			<p>determine sufficiency plans for placements over a four year period.</p> <p>The Brokerage and Contract teams will focus upon driving out further efficiencies through effective procurement.</p> <p>The Council will continue to develop the usage and governance of the Better Care Fund.</p> <p>A project structure including governance and resources has been agreed by SMT for the implementation of one ICT system for children's and adults services over the next 2 years. Procurement costs have been minimised by joint working with Shropshire Council.</p>	<p>and a representative of the s151 officer).</p> <p>Following this progress is reported to a Member Challenge Group attended by the MD Challenge Group portfolio holder for Children & Adults, the portfolio holder for Finance, Commercial Services and Economic Development and the Chair of the Health & Adult Social Care Scrutiny Committee.</p>

No	Action	Lead Officer	Comments	Status as at December 2017
5.	Implement the governance aspects of the improvement plans arising from external Ofsted and Care Quality Commission (CQC) inspection reports and peer reviews/challenges.	Director: Children's & Adult Services and Director – Customer, Neighbourhood & Well-Being Services	<p>The Ofsted action plan from the 2016 review will continue to be implemented and monitored during 2017/18.</p> <p>Internal Audit work in Children's safeguarding will be aligned to support and confirm implementation of these recommendations.</p> <p>Any governance issues arising from other external reviews during 2017/18 will be monitored by senior management.</p>	<p>The 'Getting to Good' Service Improvement Plan is monitored via regular work stream leads meetings and Children's Safeguarding & Early Help Management Team.</p> <p>Progress against the actions in the plan was reported and evidenced to our Ofsted Regional Lead Inspector in October 2017.</p> <p>A progress report will be presented to Children & Young People Scrutiny Committee in 2018 (date to be agreed)</p>
6.	Ensure that senior management (including SDM's) engage and supports the implementation of the GDPR information governance requirements within their service areas.	SIRO/SMT & SDM's	<p>Information on requirements has been provided to SMT and has been updated. SMT have agreed a GDPR implementation plan which will be discussed at all management teams over the next few months.</p> <p>An intranet page has been developed and Learning & Development are supporting Ollie modules based on guidance produced. May 2018</p>	<p>A number of reports have been presented to SMT on GDPR.</p> <p>SMT have agreed the IG Teams suggestion on implementing GDPR requirements</p> <p>An intranet page has been set up on GDPR and training is available.</p>

No	Action	Lead Officer	Original Comments	Status as at December 2017
7.	Ensure that the website contains relevant current information and is kept up to date.	AD Customer & Neighbourhood Services	<p>This year's certification process has identified that several teams are not keeping their web pages up to date and one reason is a lack of knowledge of how to do this. Appropriate support will be provided to ensure that Teams have the skills to keep them up to date going forward.</p> <p>On-going during 2017/18.</p>	<p>The Web Team are planning to relaunch the process for website authoring in the new year (February 2018) by asking SDM's to nominate a single officer for their service area who will become the Web Editor.</p> <p>This person will have dual responsibility for the internet and intranet sites for their service area, as well as being their social media champion.</p> <p>The role will involve them regularly reviewing website content, and working with web authors to update and improve content.</p> <p>A new programme of training will be developed for the Web Authors once identified.</p>
8.	Continue to develop and implement appropriate governance arrangements to support commercial projects.	Managing Director & SMT	<p>Governance processes in place and robust business cases and funding approvals are required for all activities.</p> <p>On-going during 2017/18.</p>	On-going as previous comment.