



Telford & Wrekin
C O U N C I L

Addenbrooke House Ironmasters Way Telford TF3 4NT

AUDIT COMMITTEE

| | | | |
|-------|---|------|---------------|
| Date | Tuesday, 29 January 2019 | Time | 6.00pm |
| Venue | Meeting Room G3/G4 Addenbrooke House, Ironmasters Way, Telford TF3 4NT | | |

Enquiries Regarding this Agenda:

| | | |
|---------------------|--------------------------|--------------|
| Democratic Services | Jayne Clarke | 01952 383205 |
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Committee Membership: Councillors **R J Sloan (Chair), C F Smith (Vice Chair),**
I T W Fletcher, A D McClements, 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 2 October 2018.
4. **Treasury Management Update**
To receive a verbal report from Arlingclose
5. **2019/20 Treasury Strategy and Treasury Strategy Update Report** Appendix B
To receive a report from the Assistant Director: Finance & Human Resources
6. **Audit Progress Report and Sector Update and Informing the audit risks assessment** Appendix C
To receive a report from Grant Thornton

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| 7. | External Audit Grants Report 2017/18 To receive a report from KPMG | Appendix D |
| 8. | 2018-19 Internal Audit Update Report To receive a report from the Audit & Governance Team Leader | Appendix E |
| 9. | Updated position of the AGS Action Plan 2017/18 To receive a report from the Organisational Delivery & Development Manager | Appendix F |

AUDIT COMMITTEE

Minutes of a meeting of the Audit Committee held on Tuesday, 2 October 2018 at 6.00pm in Meeting Room G3-G4, Addenbrooke House, Ironmasters Way, Telford

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

IN ATTENDANCE: K Clarke (Assistant Director: Finance & Human Resources), R Montgomery (Audit & Governance Team Leader), T Drummond (Principal Auditor) and J Clarke (Democratic & Scrutiny Services Officer).

ALSO IN ATTENDANCE:

R Percival and E Mayne (from Grant Thornton, External Auditors)

AUC 23 APOLOGIES FOR ABSENCE

A D McClements

AUC 24 DECLARATIONS OF INTEREST

None.

AUC 25 MINUTES

RESOLVED – that the minutes of the meeting of the Audit Committee held on 24 July 2018 be confirmed and signed by the Chairman.

AUC 26 2018/19 INTERNAL AUDIT & INFORMATION GOVERNANCE UPDATE REPORT

The Principal Auditor informed Members of the work that had been undertaken by Internal Audit between 30 June 2018 and 7 September 2018 and gave an update on the progress of the previous audit reports issued. During this period five final reports had been issued which were either Yellow or Green. No Red or Amber reports had been issued. She was pleased to report that after following up previous issued reports that there were no remaining Red or Amber reports remaining. Some follow ups were currently in progress.

During the ensuing discussion, some Members felt encouraged that there were no red or amber reports, but noted that there were some Yellow reports still outstanding. A question was raised as to whether there were any recurring features ie procedures not being followed. A further question was raised asking if the Red or Amber reports issues prior to March 2017 were still outstanding.

The Principal Audit confirmed that there were currently no concerns and although there were a few minor procedures not being followed, this was part of the role of the audit.

The Audit & Governance Team Leader gave an update on the work of the Information Governance (IG) Team from April to August 2018. The programme of work for IG had been approved at Committee in June 2018 and good progress had been made in completing the agreed task and he was confident that the remaining work would be completed in full by the end of 18/19. He reported that the GDPR and DPA 2018 had taken up a lot of team resources. During this period the Council had received 643 Freedom of Information requests (FOIs), an average of 20-25 per week, with an 84% response rate within the 20 day statutory period. Although this was currently below the Information Commissioners Office target, it was expected that this rate would improve. Six Environmental Information Regulation Requests (EIRs) had been received during the reporting period and 100% had been responded to within the 20 day statutory period. Some 16 Subject Access Requests (SARs) had been received under the Data Protection Act, out of five responses four (80%) had been completed within one calendar month with the remaining 11 responses not due to be responded to within the reporting period. There had been six data breaches during the reporting period which had been an improvement on the previous year. The breaches had been risk assessed and graded in line with the ICO procedure. One breach had been referred to the ICO but had come back with no action required. The lessons learnt from any breach were acted upon and, if necessary, disciplinary action taken. GDPR training had gone well with 1,300 employees accessing 10,000 online training courses which was a positive result.

During the ensuing debate, Some Members asked if other Councils considered that the 90% statutory deadline was a challenging figure and if the 634 FOI requests were up or down on last year's figures. Other Members noted that the reports used a number of acronyms and members of the public may find it difficult to understand the report.

The Audit & Governance Team Leader confirmed that the benchmark across other Councils on statutory deadlines was around 80%. With regard to the FOI requests this remained in line with the last two years.

RESOLVED – that the information contained within the report in respect of Internal Audit Work between 30 June 2018 and 7 September 2018 and the Information Governance work be noted.

AUC 27 REPORT FROM THOSE CHARGED WITH GOVERNANCE

R Percival introduced himself and the representative from Grant Thornton, External Auditors, to the meeting and gave a brief introduction to the Company and the work that they undertook. He felt that the times ahead remained challenging, especially around the work of Social Care which was a challenge to all Local Authorities. He felt there were four key things that his role could bring to the Committee which were to communicate clearly and unequivocally, deliver targets, be supportive but to also bring challenge as and when required.

E Mayne also gave a brief introduction to her work as an External Auditor and updated the Committee on the support they could expect from her Team. There would be a dedicated Team Leader to support the relationship with the Finance Team to give as much continuity as possible to the work. The Value for Money work would be undertaken by Senior Managers who would gain an understanding of the business and bring regular updates to the Committee.

R Percival expressed that the Council were currently in a good place with regard to the accounts and their production and delivered robust financial statements. The Audit was due to start and would broadly be a planning process up to Christmas. In the New Year they would look at the Audit Plan and key risks and an interim visit would take place in January/February which much of the work taking place between visits prior to the Accounts being ready for a health audit at the end of May. Value for Money work would be undertaken in the Winter/Spring months.

The meeting ended at 6.37pm

Chairman:

Date:

TELFORD & WREKIN COUNCIL**AUDIT COMMITTEE – 29th JANUARY 2019****CABINET – 14th FEBRUARY 2019****COUNCIL – 28th FEBRUARY 2019****2019/20 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 2018/19 to-date and details the Treasury Strategy recommended to be adopted for 2019/20.

The strategy in 2018/19 and recent years has been to limit investments in third parties, which reduces the Council's exposure to counterparty risk, and to take advantage of lower interest rates for borrowing. Maintaining high levels of very cheap temporary financing has generated surplus treasury management returns of more than £13.8m in recent years which has reduced the impact of Government cuts to the Council's grants and therefore helped to protect front line services.

Following discussion with the Council's external treasury advisors, Arlingclose, we have started to lock into some fixed term borrowing during 2018/19 to reduce the exposure to future interest rate increases which are now predicted. It should be noted that the Council's budget for 2018/19 and proposals issued for consultation in January 2019 for 2019/20 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) which ensures that the Council's budget in relation to Treasury Management is robust. The Council is very well placed to lock in to longer term fixed rates. The Council will continue to receive 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 8.2% in the current financial year. This compares to 9.5% for the average unitary authority. 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 14 February and Full Council on 28 February, 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 2018/19 Treasury Management Update

The treasury portfolio at the end of December 2018 showed overall net indebtedness of £244.3m (borrowing: £275.6m less investments: £31.3m). Base rates were increased to 0.75% in August 2018 with a further increase of 0.25% probably expected in coming months.

The borrowing strategy for 2018/19 is

- to take new borrowing within shorter maturities before gradually lengthening maturities, and
- to take advantage of longer term loans when the opportunity presents itself.

To date in 2018/19, part of our Equal Instalment of Principal PWLB loans have matured and 7 new PWLB loans totalling £50m have been taken (£30m since the last update report (see 4.3)). 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 2018/19 is to gain maximum benefit but with security of the principal sum invested being the primary consideration. The weighted average return on internal investments at the end of December 2018 was 0.47% compared to a benchmark return for the period of 0.36% based on average DMO overnight rate. 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 £34.4m in 2019/20 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 - the policy is in line with that previously agreed and 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 14 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 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. Recommend that Cabinet and Full Council approve the Treasury Strategy, including the Annual Investment Strategy for 2019/20 together with the associated treasury Prudential Indicators and the Minimum Revenue Provision Statement, which will apply from 2019/20 onwards.

3. SUMMARY IMPACT ASSESSMENT

COMMUNITY IMPACT

Do these proposals contribute to specific priority plan objectives?

Yes/ No Maximisation of investment income whilst managing risks and minimising borrowing costs 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. 2018/19 TREASURY MANAGEMENT UPDATE

4.1 CURRENT PORTFOLIO POSITION

| | 31 March 2018 | 31 Dec 2018 |
|----------------------------------|-------------------------|-------------------------|
| | Principal £m | Principal £m |
| Fixed Rate Borrowing – PWLB | 99.624 | 146.600 |
| Fixed Rate Borrowing – LOBO | 45.000 | 25.000 |
| Fixed Rate Borrowing – Market | 15.000 | 15.000 |
| Variable Rate Borrowing - market | <u>97.078</u> | <u>89.000</u> |
| Total External Financing | 256.702 | 275.600 |
| Investments - in-house | <u>19.622</u> | <u>31.313</u> |
| Total Investments | 19.622 | 31.313 |
| Net Indebtedness | 237.080 | 244.287 |

4.2 INTEREST RATES

UK interest rates were increased to 0.75% in August 2018. The Bank of England Quantitative Easing programme remains at £435bn. The Authority's treasury management adviser Arlingclose is forecasting two more 0.25% increases during 2019 to take official UK interest rates to 1.25%. The Bank of England's MPC has maintained expectations for slow and steady rate rises over the forecast horizon. The MPC continues to have a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. Arlingclose believes that MPC members consider both that ultra-low interest rates result in other economic problems, and that higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise when rate cuts will be required.

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 2018/19 no PWLB rescheduling has taken place as market conditions have not been favourable, however the scope for opportunities is regularly monitored.

The Council has taken the opportunity to repay £20m Lender's Option, Borrower's Option (LOBO) loans which were running at interest rates ranging 3.99% to 4.24% and with 40+ years to maturity remaining. The options in LOBOs are: the lender can increase the interest rate on the loan; while the borrower can only repay the loan if the lender exercises this option, which is therefore of limited value to the borrower. The borrower is also exposed to interest rate increases and refinancing risk if the lender's option is exercised. Until recently, banks have been reluctant to offer suitable prepayment terms however Arlingclose were able to negotiate terms

relating to £20m of the Council's LOBOs in July which provide value to the Council in terms of savings after the associated premium has been taken in to account and also reduces interest rate risk exposure in the overall borrowing portfolio. Following this, the Council now has £25m LOBO loans and will continue to review opportunities in relation to these.

New Borrowing

Between the period 1 June 2018 (previous Member update) and 31 December 2018, £140.0m of temporary loans have been raised in order to fund short-term cash flow requirements at various points. Interest rates have ranged from 0.45% to 0.93% - interest rates have remained fairly low during this time. Outstanding temporary borrowing at 31 December 2018 was £89.0m

The following longer term borrowing has been undertaken since June 2018 with a view to slowly locking in to some longer-term fixed interest rates.

| Date | Loan | Period | Amount | Interest Rate |
|----------|--------------|------------|-------------|---------------|
| 06/12/18 | Annuity | 17 years | £5,000,000 | 1.99% |
| 04/12/18 | EIP | 15 years | £5,000,000 | 1.98% |
| 22/11/18 | PWLB Annuity | 15 years | £5,000,000 | 1.98% |
| 22/11/18 | PWLB Annuity | 14.5 years | £5,000,000 | 1.98% |
| 19/11/18 | EIP | 15 years | £10,000,000 | 2.01% |

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. In total £2,269m of investments were placed between 1 June and 31 December. Interest rates have ranged from 0.25% to 0.65% and periods ranged from overnight deposits to 5 days. £31.313m in house temporary investments were held at 31 December 2018.

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 0.47% compared to a benchmark return for the period of 0.36%.

4.4.2 Overall Position and Exposure

A full analysis of all Council investments at the end of December 2018 is shown in Appendix F.

Our current counterparty limit and maximum exposure is £15.0m for the current year with any one counterparty, with exception of the Debt Management Office which is unlimited (DMO) as it is Government guaranteed. At the end of December the greatest exposure with a single counterparty was £26.6m with the DMO (84.9% 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 2018/19 which were undertaken in September. The drawdowns consisted of finance leases from JCB Finance totalling £0.213m and funded the purchase of ICT equipment over three years and ICT equipment and a van over five years.

5. TREASURY STRATEGY FOR 2019/20 to 2020/21

5.1 BACKGROUND

5.1.1 The CIPFA Treasury Management Code of Practice

Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. 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 financial risk are therefore central to the Authority's prudent financial management.

Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Authority to approve a treasury management 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 the CIPFA Code.

Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy also on the agenda for Cabinet and full Council in February.

5.1.2 External Context

Economic background: The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Authority's treasury management strategy for 2019/20.

UK Consumer Price Inflation (CPI) for October was up 2.4% year on year, slightly below the consensus forecast and broadly in line with the Bank of England's November Inflation Report. The most recent labour market data for October 2018 showed the unemployment rate edged up slightly to 4.1% while the employment rate of 75.7% was the joint highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.3% as wages continue to rise steadily and provide some pull on general inflation. Adjusted for inflation, real wages grew by 1.0%, a level still likely to have little effect on consumer spending.

The rise in quarterly GDP growth to 0.6% in Q3 from 0.4% in the previous quarter was due to weather-related factors boosting overall household consumption and construction activity over the summer following the weather-related weakness in Q1. At 1.5%, annual GDP growth continues to remain below trend. Looking ahead, the Bank of England (BoE), in its November Inflation Report, expects GDP growth to average around 1.75% over the forecast horizon, providing the UK's exit from the EU is relatively smooth.

Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy has been made since. However, the Bank expects that should the economy continue to evolve in line with its November forecast, further increases in Bank Rate will be required to return inflation to the 2% target. The Monetary Policy Committee continues to reiterate that any further increases will be at a gradual pace and limited in extent.

While US growth has slowed over 2018, the economy continues to perform robustly. The US Federal Reserve continued its tightening bias throughout 2018, pushing rates to the current 2%-2.25% in September. Markets continue to expect one more rate rise in December, but expectations are fading that the further hikes previously expected in 2019 will materialise as concerns over trade wars drag on economic activity.

Credit outlook: The big four UK banking groups have now divided their retail and investment banking divisions into separate legal entities under ringfencing legislation. Bank of Scotland, Barclays Bank UK, HSBC UK Bank, Lloyds Bank, National Westminster Bank, Royal Bank of Scotland and Ulster Bank are the ringfenced banks that now only conduct lower risk retail banking activities. Barclays Bank, HSBC Bank, Lloyds Bank Corporate Markets and NatWest Markets are the investment banks. Credit rating agencies have adjusted the ratings of some of these banks with the ringfenced banks generally being better rated than their non-ringfenced counterparts.

The Bank of England released its latest report on bank stress testing, illustrating that all entities included in the analysis were deemed to have passed the test once the levels of capital and potential mitigating actions presumed to be taken by management were factored in. The BoE did not require any bank to raise additional capital.

European banks are considering their approach to Brexit, with some looking to create new UK subsidiaries to ensure they can continue trading here. The credit strength of these new banks remains unknown, although the chance of parental support is assumed to be very high if ever needed. The uncertainty caused by protracted negotiations between the UK and EU is weighing on the creditworthiness of both UK and European banks with substantial operations in both jurisdictions.

Interest rate forecast: Following the increase in Bank Rate to 0.75% in August 2018, the Authority's treasury management adviser Arlingclose is forecasting two more 0.25% hikes during 2019 to take official UK interest rates to 1.25%. The Bank of England's MPC has maintained expectations for slow and steady rate rises over the forecast horizon. The MPC continues to have a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. Arlingclose believes that MPC members consider both that ultra-low interest rates result in other economic problems, and that higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise when rate cuts will be required.

The UK economic environment remains relatively soft, despite seemingly strong labour market data. Arlingclose's view is that the economy still faces a challenging outlook as it exits the European Union and Eurozone growth softens. Whilst assumptions are that a Brexit deal is struck and some agreement reached on transition and future trading arrangements before the UK leaves the EU, the possibility of a "no deal" Brexit still hangs over economic activity (*at the time of writing this commentary in early November*). As such, the risks to the interest rate forecast are considered firmly to the downside.

Gilt yields and hence long-term borrowing rates have remained at low levels but some upward movement from current levels is expected based on Arlingclose's interest rate projections, due to the strength of the US economy and the ECB's forward guidance on higher rates. 10-year and 20-year gilt yields are forecast to remain around 1.5% and 2% respectively over the interest rate forecast horizon, however volatility arising from both economic and political events are likely to continue to offer borrowing opportunities.

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 3.0% in 2019/20 and 3.5% thereafter.

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 2022/23. 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:

| | 31/03/18 Actual £m | 31/03/19 Estimate £m | 31/03/20 Estimate £m | 31/03/21 Estimate £m | 31/03/22 Estimate £m |
|--|-----------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Capital Financing Requirement | 420.809 | 450.934 | 482.033 | 493.359 | 495.847 |
| Less: Other long term liabilities (e.g. PFI) | -56.297 | -54.056 | -51.737 | -50.529 | -51.378 |
| Borrowing CFR | 364.512 | 396.878 | 430.296 | 442.830 | 444.469 |
| Less: External Borrowing | -256.702 | -287.731 | -322.122 | -335.498 | -337.895 |
| Internal Borrowing | 107.810 | 109.147 | 108.174 | 107.332 | 106.574 |

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.

CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to fully comply with this recommendation during 2019/20.

5.1.4 Borrowing Strategy

The Authority currently holds £275.6 million of loans, an increase of £18.9 million on the previous year, as part of its strategy for funding the capital programme. The balance sheet forecast shows that the Authority expects borrowing to increase by year end and continue to increase over the next few years. The Authority may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing.

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

Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow 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 sustainable 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 modestly. 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 2019/20 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

Alternatively, the Authority may arrange forward starting loans during 2019/20, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Authority may borrow further short-term loans to cover unplanned cash flow shortages. The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body

- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
- Registered Housing providers
- Capital market bond investors

Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

The Authority has previously raised the majority of its long-term borrowing from the PWLB but may consider other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates.

Municipal Bonds 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 meet its obligations 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 £25.0m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. £10m of these LOBOs have remaining options prior to the end of the financial year, 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. Rates payable were competitive compared to PWLB rates at the time that the loans were taken out. 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 £25.0m.

Short-term and variable rate loans: These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits 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. Other 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 cost saving or a reduction in risk.

5.2 Investment Strategy

The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £12.2 million and £51.4 million, which was higher than normal due to the funds required to repay LOBOs (see above), and we expect to normally maintain an investment balance of between £10 million and £20 million in the forthcoming year.

The CIPFA Code requires 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. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

If the UK enters into a recession in 2019/20, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Under the new IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

The Authority may invest its surplus funds with any of the counterparty types in table 3 below, subject to the cash limits (per counterparty) and the 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 | £15m | £15m | £7.5 m | £15m |

| | | | | | |
|--|-------------------|-------------------|------------------|--------------------|------------------|
| | 5 years | 10 years | 25 years | 10 years | 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 |
| None | £0m 6 months | n/a | £4m 25 years | £1,000 5 years | £0m 5 years |
| Pooled funds and real estate investment trusts | | £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 limits are set 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. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

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. See below for arrangements relating to operational bank accounts.

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 higher 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, although they are not without risk. 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 either following an external credit assessment 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 & Communities Agency and as providers of public services, they retain the 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. Short-term 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 will 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.

Real estate investment funds: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Operational bank accounts: The Authority may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £15.0m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

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. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority’s treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above 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.

Investment Limits: The Authority has revenue reserves, which could be used to cover investment losses which were £84.5 million on 1st April 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. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

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

- interest-bearing bank accounts,
- fixed term deposits and loans,
- callable deposits and loans where the Authority may demand repayment at any time (with or without notice),

- callable deposits and loans where the borrower may repay before maturity, but subject to a maximum of £5 million in total,
- certificates of deposit,
- bonds, notes, bills, commercial paper and other marketable instruments, and
- shares in money market funds and other pooled funds.

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

Liquidity management: The Authority uses cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

5.3 Ethical Investment

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

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

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

5.4 The Use of Financial Instruments for the Management of Risks

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

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will

not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

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

5.5 Balanced Budget Requirement

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

5.6 2019/20 MRP Statement

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

5.6.2 The four MRP options available are:
Option 1: Regulatory Method
Option 2: CFR Method
Option 3: Asset Life Method
Option 4: Depreciation Method
NB This does not preclude other prudent methods.

5.6.3 MRP in 2019/20: 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 2019/20 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put to Council at that time.

5.6.5 The Council will calculate MRP by the following methods.

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

MRP in respect of prudential borrowing, government supported allocations since 2007/08 and PFI will be charged over the life of the asset on an annuity basis (option 3 in the regulations). MRP for borrowing in respect of NuPlace is set at £0 due the expectation that the value will appreciate over time and that the houses will all eventually be sold and the Council will apply the capital receipts arising to reduce the Capital Financing Requirement. Along the same lines as NuPlace, MRP for borrowing in respect of Investment Properties will be

calculated as 20% of the value of the annuity MRP to reflect that although there will normally be capital appreciation, a downturn in the economy could result in reductions in value of investment properties

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

5.7 Monitoring and Reporting on the Treasury Outturn and Prudential Indicators

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

- half yearly against the strategy approved for the year. The Authority will produce an outturn report on its treasury activity no later than 31st July 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 2019.

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, which has been executed.

7. BACKGROUND PAPERS

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

Report prepared by

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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."

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.

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."

- 2.2 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.
- 2.3 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.

EXISTING PORTFOLIO PROJECTED FORWARD

| | Current Portfolio £m | % | 31/03/19 Estimate £m | 31/03/20 Estimate £m | 31/03/21 Estimate £m | 31/03/22 Estimate £m | 31/03/23 Estimate £m |
|---|-------------------------|--------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| External Borrowing: | | | | | | | |
| Fixed Rate – PWLB | 146.6 | 43.9 | 167.7 | 222.2 | 235.5 | 237.9 | 234.4 |
| Fixed Rate – LOBO | 25.0 | 7.5 | 25.0 | 25.0 | 25.0 | 25.0 | 25.0 |
| Fixed Rate – Market | 15.0 | 4.5 | 15.0 | 15.0 | 15.0 | 15.0 | 15.0 |
| Variable Rate – PWLB | 0 | 0.0 | 0 | 0 | 0 | 0 | 0 |
| Variable Rate – Market | 89.0 | 26.7 | 80.0 | 60.0 | 60.0 | 60.0 | 60.0 |
| Total External Borrowing | 275.6 | 82.6 | 287.7 | 322.2 | 335.5 | 337.9 | 334.4 |
| IFRS Long Term Liabilities: | | | | | | | |
| PFI | 58.1 | 17.4 | 54.1 | 51.7 | 50.5 | 51.4 | 48.5 |
| Finance Leases | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Gross External Debt | 333.7 | 100.0 | 341.8 | 373.9 | 386.0 | 389.3 | 382.9 |
| Investments: | | | | | | | |
| Managed in-house | 0 | 0.0 | 0 | 0 | 0 | 0 | 0 |
| Short-term monies (Deposits/ monies on call /MMFs) | 31.3 | 100.0 | 20.0 | 20.0 | 20.0 | 20.0 | 20.0 |
| Long-term investments (maturities over 12 months) | 0 | 0.0 | 0 | 0 | 0 | 0 | 0 |
| Total Investments | 31.3 | 100.0 | 20.0 | 20.0 | 20.0 | 20.0 | 20.0 |
| (Net Borrowing Position) / Net Investment Position | -302.4 | | -321.8 | -353.9 | -366.0 | -369.3 | -362.9 |

Prudential Indicators 2018/19 – 2021/22

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 2017/18, nor are there any difficulties envisaged for the current or 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 | 18/19 Approved £m | 18/19 Revised £m | 19/20 Estimate £m | 20/21 Estimate £m | 21/22 Estimate £m | 22/23 Estimate £m |
|---------------------|-------------------------|------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Total | 84.667 | 71.778 | 77.458 | 34.325 | 5.857 | 0.000 |

3.2 Capital expenditure will be financed or funded as follows:

| Capital Financing | 18/19 Approved £m | 18/19 Revised £m | 19/20 Estimate £m | 20/21 Estimate £m | 21/22 Estimate £m | 22/23* Estimate £m |
|------------------------------------|-------------------------|------------------------|-------------------------|-------------------------|-------------------------|--------------------------|
| Capital receipts | 10.943 | 11.015 | 6.490 | 8.340 | 3.410 | 3.500 |
| Government Grants | 17.019 | 19.104 | 26.879 | 9.447 | 0.000 | 0.000 |
| Revenue / External contributions | 13.418 | 11.008 | 9.698 | 3.162 | 0.050 | 0.050 |
| Total Financing | 41.380 | 41.127 | 43.067 | 20.949 | 3.460 | 3.550 |
| Prudential Borrowing | 43.287 | 30.651 | 34.391 | 13.376 | 2.397 | -3.550 |
| Total Funding | 43.287 | 30.651 | 34.391 | 13.376 | 2.397 | -3.550 |
| Total Financing and Funding | 84.667 | 71.778 | 77.458 | 34.325 | 5.857 | 0.000 |

* The Capital Programme has not been considered beyond 2021/22

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 | 18/19 Approved % | 18/19 Revised % | 19/20 Estimate % | 20/21 Estimate % | 21/22 Estimate % | 22/23 Estimate % |
|---|-------------------------|------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Total | 7.45 | 4.84 | 7.89 | 9.47 | 10.0 | 10.5 |

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 | 18/19 Approved £m | 18/19 Revised £m | 19/20 Estimate £m | 20/21 Estimate £m | 21/22 Estimate £m | 22/23 Estimate £m |
|--------------------------------------|--------------------------|-------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Total CFR | 467.774 | 450.934 | 482.033 | 493.359 | 495.847 | 488.810 |

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 31/03/18 | £m |
|--|----------------|
| Borrowing | 256.702 |
| Other Long-term Liabilities | 56.297 |
| Total | 312.999 |

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 | 18/19 Approved £ | 19/20 Estimate £ | 20/21 Estimate £ | 21/22 Estimate £ | 22/23 Estimate £ | 23/24 Estimate £ |
|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Increase in Band B Council Tax | 0.74 | 1.03 | 1.63 | 3.23 | 5.62 | 5.61 |

7.2 The increase in Band B council tax reflects the increases in the provision for Capital Financing Charges of £0.366m by 2022/23 to undertake additional borrowing of £6.585m 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 | 18/19 Approved £m | 18/19 Revised £m | 19/20 Estimate £m | 20/21 Estimate £m | 21/22 Estimate £m | 22/23 Estimate £m |
|---|------------------------------|-----------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| Borrowing | 440 | 440 | 440 | 450 | 450 | 450 |
| Other Long-term Liabilities | 61 | 61 | 63 | 63 | 63 | 63 |
| Total | 501 | 501 | 503 | 513 | 513 | 513 |

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 | 18/19 Approved £m | 18/19 Revised £m | 19/20 Estimate £m | 20/21 Estimate £m | 21/22 Estimate £m | 22/23 Estimate £m |
|---|--------------------------|-------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Borrowing | 420 | 420 | 420 | 430 | 430 | 430 |
| Other Long-term Liabilities | 59 | 59 | 60 | 60 | 60 | 60 |
| Total | 479 | 439 | 480 | 490 | 490 | 490 |

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 | 18/19 Estimated £m | 19/20 Authorised £m | 20/21 Authorised £m | 21/22 Authorised £m | 22/23 Authorised £m |
|--|---------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Outstanding Borrowing (at nominal value) | 287.731 | 322.122 | 335.498 | 337.895 | 334.345 |
| Other Long-term Liabilities (at nominal value) | 54.056 | 51.737 | 50.529 | 51.378 | 48.492 |
| Gross Debt | 341.787 | 373.859 | 386.027 | 389.273 | 382.837 |

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 % | 18/19 Approved % | 18/19 Revised % | 19/20 Estimate % | 20/21 Estimate % | 21/22 Estimate % | 22/23 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 31.12.18 % | Lower Limit for 19/20 % | Upper Limit for 19/20 % |
|---|--|--|--|
| under 12 months | 32 | 0 | 70 |
| 12 months and within 24 months | 3 | 0 | 30 |
| 24 months and within 5 years | 7 | 0 | 50 |
| 5 years and within 10 years | 11 | 0 | 75 |
| 10 years and within 20 years | 10 | 0 | 75 |
| 20 years and within 30 years | 0 | 0 | 75 |
| 30 years and within 40 years | 11 | 0 | 100 |
| 40 years and within 50 years | 12 | 0 | 100 |
| 50 years and above | 15 | 0 | 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 | 18/19 Approved % | 18/19 Revised % | 19/20 Estimate % | 20/21 Estimate % | 21/22 Estimate % | 22/23 Estimate % |
|--|---------------------------------|--------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | 95 | 95 | 95 | 95 | 95 | 95 |

Appendix D – Arlingclose Economic & Interest Rate Forecast December 2018**Underlying assumptions:**

- Our central interest rate forecasts are predicated on there being a transitional period following the UK's official exit from the EU.
- The MPC has a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. We believe that MPC members consider that: 1) tight labour markets will prompt inflationary pressure in the future, 2) ultra-low interest rates result in other economic problems, and 3) higher Bank Rate will be a more effective policy weapon if downside risks to growth crystallise.
- Both our projected outlook and the increase in the magnitude of political and economic risks facing the UK economy means we maintain the significant downside risks to our forecasts, despite the potential for slightly stronger growth next year as business investment rebounds should the EU Withdrawal Agreement be approved. The potential for severe economic outcomes has increased following the poor reception of the Withdrawal Agreement by MPs. We expect the Bank of England to hold at or reduce interest rates from current levels if Brexit risks materialise.
- The UK economic environment is relatively soft, despite seemingly strong labour market data. GDP growth recovered somewhat in the middle quarters of 2018, but more recent data suggests the economy slowed markedly in Q4. Our view is that the UK economy still faces a challenging outlook as the country exits the European Union and Eurozone economic growth softens.
- Cost pressures are easing but inflation is forecast to remain above the Bank's 2% target through most of the forecast period. Lower oil prices have reduced inflationary pressure, but the tight labour market and decline in the value of sterling means inflation may remain above target for longer than expected.
- Global economic growth is slowing. Despite slower growth, the European Central Bank is conditioning markets for the end of QE, the timing of the first rate hike (2019) and their path thereafter. More recent US data has placed pressure on the Federal Reserve to reduce the pace of monetary tightening – previous hikes and heightened expectations will, however, slow economic growth.
- Central bank actions and geopolitical risks have and will continue to produce significant volatility in financial markets, including bond markets.

Forecast:

- The MPC has maintained expectations of a slow rise in interest rates over the forecast horizon, but recent events around Brexit have dampened interest rate expectations. Our central case is for Bank Rate to rise twice in 2019, after the UK exits the EU. The risks are weighted to the downside.

- Gilt yields have remained at low levels. We expect some upward movement from current levels based on our central case that the UK will enter a transitional period following its EU exit in March 2019. However, our projected weak economic outlook and volatility arising from both economic and political events will continue to offer borrowing opportunities.

| | Dec-18 | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Average |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Official Bank Rate | | | | | | | | | | | | | | |
| Upside risk | 0.00 | 0.00 | 0.00 | 0.00 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.17 |
| Arlingclose Central Case | 0.75 | 1.00 | 1.00 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.17 |
| Downside risk | 0.00 | 0.50 | 0.50 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.65 |
| 3-mth money market rate | | | | | | | | | | | | | | |
| Upside risk | 0.10 | 0.10 | 0.10 | 0.10 | 0.15 | 0.20 | 0.20 | 0.20 | 0.20 | 0.20 | 0.20 | 0.20 | 0.20 | 0.17 |
| Arlingclose Central Case | 0.80 | 1.00 | 1.10 | 1.20 | 1.30 | 1.30 | 1.25 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 | 1.17 |
| Downside risk | 0.20 | 0.50 | 0.60 | 0.70 | 0.80 | 0.80 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.68 |
| 1-yr money market rate | | | | | | | | | | | | | | |
| Upside risk | 0.20 | 0.30 | 0.30 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.33 |
| Arlingclose Central Case | 1.05 | 1.25 | 1.35 | 1.40 | 1.50 | 1.45 | 1.40 | 1.40 | 1.40 | 1.40 | 1.40 | 1.40 | 1.40 | 1.37 |
| Downside risk | 0.35 | 0.50 | 0.60 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.69 |
| 5-yr gilt yield | | | | | | | | | | | | | | |
| Upside risk | 0.15 | 0.20 | 0.25 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.32 |
| Arlingclose Central Case | 1.15 | 1.20 | 1.25 | 1.35 | 1.40 | 1.40 | 1.35 | 1.35 | 1.30 | 1.30 | 1.30 | 1.30 | 1.30 | 1.30 |
| Downside risk | 0.30 | 0.35 | 0.45 | 0.50 | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 | 0.54 |
| 10-yr gilt yield | | | | | | | | | | | | | | |
| Upside risk | 0.20 | 0.25 | 0.25 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.32 |
| Arlingclose Central Case | 1.60 | 1.65 | 1.65 | 1.70 | 1.75 | 1.75 | 1.75 | 1.70 | 1.70 | 1.70 | 1.70 | 1.70 | 1.70 | 1.70 |
| Downside risk | 0.30 | 0.45 | 0.50 | 0.55 | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 | 0.55 |
| 20-yr gilt yield | | | | | | | | | | | | | | |
| Upside risk | 0.20 | 0.25 | 0.25 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.32 |
| Arlingclose Central Case | 1.90 | 1.95 | 1.95 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 1.98 |
| Downside risk | 0.30 | 0.40 | 0.45 | 0.45 | 0.45 | 0.45 | 0.45 | 0.45 | 0.45 | 0.45 | 0.45 | 0.45 | 0.45 | 0.43 |
| 50-yr gilt yield | | | | | | | | | | | | | | |
| Upside risk | 0.20 | 0.25 | 0.25 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.32 |
| Arlingclose Central Case | 1.80 | 1.85 | 1.85 | 1.90 | 1.90 | 1.90 | 1.90 | 1.90 | 1.90 | 1.90 | 1.90 | 1.90 | 1.90 | 1.88 |
| Downside risk | 0.30 | 0.40 | 0.45 | 0.45 | 0.45 | 0.45 | 0.45 | 0.45 | 0.45 | 0.45 | 0.45 | 0.45 | 0.45 | 0.43 |

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%

PWLB Local Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

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.

| Instrument | Country/ Domicile | Counterparty | Maximum Counterparty Limit %/£m | Maximum Group Limit (if applicable) %/£m | Council Holding At 31/12/18 £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 | 5.7 |
| 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 | 0 |
| 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 2018.*

SUMMARY OF TREASURY INVESTMENTS**TOTAL RISK PER COUNTERPARTY AS AT 31 DECEMBER 2018**

| | CREDIT RATING | TOTAL £000 |
|----------------------------|------------------|----------------------|
| <u>Fixed Deposits</u> | | |
| Lloyds | UK AAA F1+ AA- 2 | 5,737 |
| Debt Management Office | UK Government | 20,596 |
| Money Market Funds | AAAm | 4,980 |
| Total cash deposits | | <u>31,313</u> |

Sovereign Analysis:

| | |
|-------------|--------------------|
| Lloyds Bank | 100% UK |
| DMO | 100% UK |
| MMFs | 9% UK / 91% NON-UK |

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
- Grupo Santander (ultimate parent of Santander UK plc).

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

Limitations to ethical policies:

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

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

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

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

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

Credit Ratings – A Guide.

Long-term credit ratings and Sovereign Ratings

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

Investment grade

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

Non-investment grade

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

Short-term credit ratings

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

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

Support Ratings (1 – 5)

The Purpose and Function of Support Ratings

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

Timeliness and Effectiveness Requirements

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

Obligations and Financial Instruments Covered

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

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

Definitions:

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

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

GLOSSARY

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

| | |
|---------------------------------|--|
| | example, a stock option is a derivative because it derives its value from the value of a stock. An interest rate swap is a derivative because it derives its value from one or more interest rate indices. |
| Discounts | These relate to Public Works Loans Board loans. If rates have increased since the borrowing was undertaken then part of the benefit that PWLB will achieve from being able to loan out at that higher rate are passed back to an authority if they repay the loan early. |
| Fund Managers | Independent investment managers who work to a specific mandate and invest funds on behalf of the Council |
| Inflation | The rise in prices of goods and services over a period of time. |
| Interest Rate Risk | The risk that the value of an investment will change due to changes to the interest rate. |
| Internal Borrowing | This is where the amount of an authority's borrowing is less than its CFR or underlying need to borrow and represents the use of internal balances rather than borrowing from the market. |
| LIBID | London inter-bank bid rate. Interest rate at which prime banks will borrow money in the London inter-bank market. |
| LIBOR | London inter-bank offer rate. Interest rate at which prime banks will lend money in the London inter-bank market. Fixed every day by the British Bankers Association to five decimal places. |
| Liquidity Risk | The risk of not being able to trade an investment quickly to release cash. |
| Minimum Revenue Provision (MRP) | This is the amount charged against the Income and Expenditure Account for the year in relation to the repayment of debt on borrowing in order to fund capital expenditure. |
| 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. |
| Quantitative Easing | This is where the government buy back their own gilt issuance to effectively pump money into the financial markets of the economy. |
| 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. |

Audit Progress Report and Sector Update

Telford & Wrekin Council
Year ending 31 March 2019

January 2019



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Introduction



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This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk ..

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Senior Manager.

Progress to date

Financial Statements Audit

We have started planning for the 2018/19 financial statements audit and have issued a detailed audit plan which is currently with Officers for agreement. This sets out our proposed approach to the audit of the Council's 2018/19 financial statements.

We commenced our interim audit in January 2019. Our interim fieldwork visit will include:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

We will report any significant findings from the interim audit, should we need to bring these to your attention, in our Progress Report at the May Audit committee.

The statutory deadline for the issue of the 2018/19 opinion is 31 July 2018. We will discuss our plan and timetable with officers.

The final accounts audit is due to begin in June with findings reported to you in the Audit Findings Report by the deadline of July 2019.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "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 three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Details of our initial risk assessment to determine our approach are included in our Audit Plan.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2018.

Other areas

Certification of claims and returns

We are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions.

Our planning work will commence late March with samples being chosen in May and June.

Meetings

We met with Finance Officers during Autumn 2018. We are meeting your Managing Director in January 2019 to discuss the Council's strategic priorities and plans as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. This is supporting the development of key relationships within the Council is core departments including Internal Audit.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Our next event is our Financial Reporting Workshop which helps to ensure that members of your Finance Team are up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Deliverables

| 2018/19 Deliverables | Planned Date | Status |
|---|---------------|-------------|
| Fee Letter Confirming audit fee for 2018/19. | April 2018 | Complete |
| Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed audit approach in order to give an opinion on the Council's 2018/19 financial statements. This will also include our initial value for money risk assessment. | January 2019 | In draft |
| Interim Audit Findings We will report to you the findings from our interim audit within our Progress Report. | May 2019 | Not yet due |
| Audit Findings Report The Audit Findings Report will be reported to the July Audit Committee. | July 2019 | Not yet due |
| Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion. | July 2019 | Not yet due |
| Annual Audit Letter This letter communicates the key issues arising from our work. | August 2019 | Not yet due |
| Annual Certification Letter This letter reports any matters arising from our certification work carried out under the PSAA contract. | December 2019 | Not yet due |

Sector Update

Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

A teal rectangular button with the text "Public Sector" in white, sans-serif font, centered within the button.

Public Sector

A purple rectangular button with the text "Local government" in white, sans-serif font, centered within the button.

Local
government

Public Sector Audit Appointments – Report on the results of auditors’ work 2017/18

This is the fourth report published by Public Sector Audit Appointments (PSAA) and summarises the results of auditors’ work at 495 principal local government and police bodies for 2017/18. This will be the final report under the statutory functions from the Audit Commission Act 1998 that were delegated to PSAA on a transitional basis.

The report covers the timeliness and quality of financial reporting, auditors’ local value for money work, and the extent to which auditors used their statutory reporting powers.

For 2017/18, the statutory accounts publication deadline came forward by two months to 31 July 2018. This was challenging for bodies and auditors and it is encouraging that 431 (87 per cent) audited bodies received an audit opinion by the new deadline.

The most common reasons for delays in issuing the opinion on the 2017/18 accounts were:

- technical accounting/audit issues;
- various errors identified during the audit;
- insufficient availability of staff at the audited body to support the audit;
- problems with the quality of supporting working papers; and
- draft accounts submitted late for audit.

All the opinions issued to date in relation to bodies’ financial statements are unqualified, as was the case for the 2016/17 accounts. Auditors have made statutory recommendations to three bodies, compared to two such cases in respect of 2016/17, and issued an advisory notice to one body.

The number of qualified conclusions on value for money arrangements looks set to remain relatively constant. It currently stands at 7 per cent (32 councils, 1 fire and rescue authority, 1 police body and 2 other local government bodies) compared to 8 per cent for 2016/17, with a further 30 conclusions for 2017/18 still to be issued.

The most common reasons for auditors issuing qualified VFM conclusions for 2017/18 were:

- the impact of issues identified in the reports of statutory inspectorates, for example Ofsted;
- corporate governance issues;
- financial sustainability concerns; and
- procurement/contract management issues.

All the opinions issued to date in relation to bodies’ financial statements are unqualified, as was the case for the 2016/17 accounts.

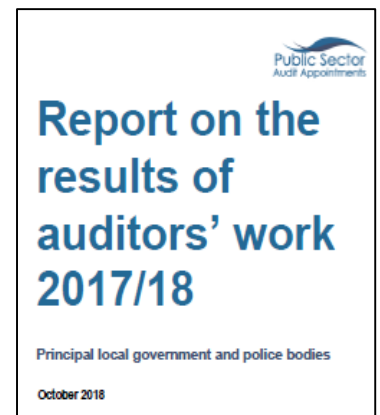
The report is available on the PSAA website:

<https://www.psa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

PSAA Report

Challenge question:

Has your Authority identified improvements to be made to the 2018/19 financial statements audit and Value for Money Conclusion?



National Audit Office – Local auditor reporting in England 2018

The report describes the roles and responsibilities of local auditors and relevant national bodies in relation to the local audit framework and summarises the main findings reported by local auditors in 2017-18. It also considers how the quantity and nature of the issues reported have changed since the Comptroller & Auditor General (C&AG) took up his new responsibilities in 2015, and highlights differences between the local government and NHS sectors.

Given increasing financial and demand pressures on local bodies, they need strong arrangements to manage finances and secure value for money. External auditors have a key role in determining whether these arrangements are strong enough. The fact that only three of the bodies (5%) the NAO contacted in connection with this study were able to confirm that they had fully implemented their plans to address the weaknesses reported suggests that while auditors are increasingly raising red flags, some of these are met with inadequate or complacent responses.

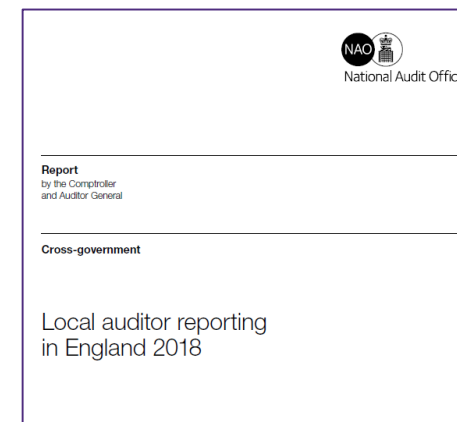
Qualified conclusions on arrangements to secure value for money locally are both unacceptably high and increasing. Auditors qualified their conclusions on arrangements to secure value for money at an increasing number of local public bodies: up from 170 (18%) in 2015-16 to 208 (22%) in 2017-18. As at 17 December 2018, auditors have yet to issue 20 conclusions on arrangements to secure value for money, so this number may increase further for 2017-18.

The proportion of local public bodies whose plans for keeping spending within budget are not fit-for-purpose, or who have significant weaknesses in their governance, is too high. This is a risk to public money and undermines confidence in how well local services are managed. Local bodies need to demonstrate to the wider public that they are managing their organisations effectively, and take local auditor reports seriously. Those charged with governance need to hold their executives to account for taking prompt and effective action. Local public bodies need to do more to strengthen their arrangements and improve their performance.

Local auditors need to exercise the full range of their additional reporting powers, where this is the most effective way of highlighting concerns, especially where they consider that local bodies are not taking sufficient action. Departments need to continue monitoring the level and nature of non-standard reporting, and formalise their processes where informal arrangements are in place. The current situation is serious, with trend lines pointing downwards.

The report is available on the NAO website:

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>



NAO Report

Challenge question:

Has your Authority responded appropriately to any concerns or issues raised in the External Auditor's report for 2017/18?



National Audit Office – Local authority governance

The report examines whether local governance arrangements provide local taxpayers and Parliament with assurance that local authority spending achieves value for money and that authorities are financially sustainable.

Local government has faced considerable funding and demand challenges since 2010-11. This raises questions as to whether the local government governance system remains effective. As demonstrated by Northamptonshire County Council, poor governance can make the difference between coping and not coping with financial and service pressures. The Department (Ministry of Housing, Communities and Local Government) places great weight on local arrangements in relation to value for money and financial sustainability, with limited engagement expected from government. For this to be effective, the Department needs to know that the governance arrangements that support local decision-making function as intended. In order to mitigate the growing risks to value for money in the sector the Department needs to improve its system-wide oversight, be more transparent in its engagement with the sector, and adopt a stronger leadership role across the governance network

Not only are the risks from poor governance greater in the current context as the stakes are higher, but the process of governance itself is more challenging and complex. Governance arrangements have to be effective in a riskier, more time-pressured and less well-resourced context. For instance, authorities need to:

- maintain tight budgetary control and scrutiny to ensure overall financial sustainability at a time when potentially contentious savings decisions have to be taken and resources for corporate support are more limited; and
- ensure that they have robust risk management arrangements in place when making commercial investments to generate new income, and that oversight and accountability is clear when entering into shared service or outsourced arrangements in order to deliver savings.

Risk profiles have increased in many local authorities as they have reduced spending and sought to generate new income in response to funding and demand pressures. Local authorities have seen a real-terms reduction in spending power (government grant and council tax) of 28.6% between 2010-11 and 2017-18. Demand in key service areas has also increased, including a 15.1% increase in the number of looked after children from 2010-11 to 2017-18. These pressures create risks to authorities' core objectives of remaining financially sustainable and meeting statutory service obligations. Furthermore, to mitigate these fundamental risks, many authorities have pursued strategies such as large-scale transformations or commercial investments that in themselves carry a risk of failure or under-performance.

The report is available on the NAO website:

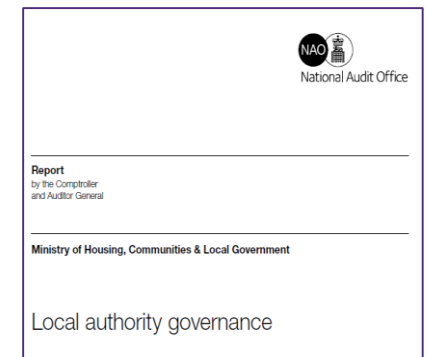
<https://www.nao.org.uk/report/local-authority-governance-2/>

NAO Report



Challenge question:

Has your Authority got appropriate governance and risk management arrangements in place to address the risks and challenges identified in the NAO report?



CIPFA – Financial Resilience Index plans revised

The Chartered Institute of Public Finance and Accountancy (CIPFA) has refined its plans for a financial resilience index for councils and is poised to rate bodies on a “suite of indicators” following a consultation with the sector.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector’s views, CIPFA invited all interested parties to respond to questions it put forward in the consultation by the 24 August.

CIPFA has also responded to concerns about the initial choice of indicators, updating the selection and will offer authorities an advanced viewing of results.

Plans for a financial resilience index were put forward by CIPFA in the summer. It is being designed to offer the sector some external guidance on their financial position.

CIPFA hailed the “unprecedented level of interest” in the consultation.

Responses were received from 189 parties, including individual local authorities, umbrella groups and auditors. Some respondents called for a more “forward-looking” assessment and raised fears over the possibility of “naming and shaming” councils.

CIPFA chief executive Rob Whiteman said with local government facing “unprecedented financial challenges” and weaknesses in public audit systems, the institute was stepping in to provide a leadership role in the public interest.

“Following the feedback we have received, we have modified and strengthened the tool so it will be even more helpful for local authorities with deteriorating financial positions,” he said.

“The tool will sit alongside CIPFA’s planned Financial Management Code, which aims to support good practice in the planning and execution of sustainable finances.”

CIPFA is now planning to introduce a “reserves depletion time” category as one of the indicators. This shows the length of time a council’s reserves will last if they deplete their reserves at the same rate as over the past three years.

The consultation response document said this new category showed that “generally most councils have either not depleted their reserves or their depletion has been low”.

“The tool will not now provide, as originally envisaged, a composite weighted index but within the suite of indicators it will include a red, amber, green (RAG) alert of specific proximity to insufficient reserve given recent trajectories,” it said.

It also highlighted the broad support from the sector for the creation of the index. “There was little dissent over the fact that CIPFA is doing the right thing in drawing attention to a matter of high national concern,” it said.

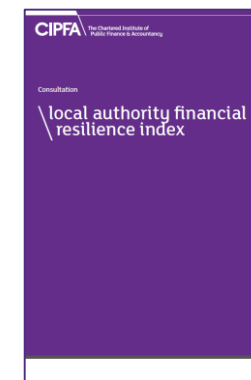
“Most respondents agreed to the need for transparency – but a sizable number had concerns over the possibly negative impacts of adverse indicators and many councils wanted to see their results prior to publication.”

As such, CIPFA plans to provide resilience measurements first to the local authorities and their auditors via the section 151 officer rather than publishing openly.

CIPFA Consultation

Challenge question:

Has your Assistant Director: Finance & Human Resources briefed members on the Council's response to the Financial Resilience Index consultation?



ICAEW Report: expectations gap

The Institute of Chartered Accountants in England and Wales (ICAEW) has published a paper on the 'expectation gap' in the external audit of public bodies.

Context:

The expectation gap is the difference between what an auditor actually does, and what stakeholders and commentators think the auditors obligations might be and what they might do. Greater debate being whether greater education and communication between auditors and stakeholders should occur rather than substantial changes in role and remit of audit.

What's the problem?

- **Short-term solvency vs. Longer-term value:**
 - LG & NHS: Facing financial pressures, oversight & governance pressures
- **Limited usefulness of auditors reports:** 'The VFM conclusion is helpful, but it is more about the system/arrangements in place rather than the actual effectiveness of value for money'
- **Other powers and duties:** implementing public interest reports in addition to VFM
- **Restricted role of questions and objections:** Misunderstanding over any objections/and or question should be resolved by the local public auditor. Lack of understanding that auditors have discretion in the use of their powers.
- **Audit qualification not always acted on by those charged with governance:** 'if independent public audit is to have the impact that it needs, it has to be taken seriously by those charged with governance'
- **Audit committees not consistently effective:** Local government struggles to recruit external members for their audit committees, they do not always have the required competencies and independence.
- **Decreased audit fees:** firms choose not to participate because considered that the margins were too tight to enable them to carry out a sufficient amount of work within the fee scales.
- **Impact of audit independence rules:** new independence rules don't allow for external auditors to take on additional work that could compromise their external audit role
- **Other stakeholders expectations not aligned with audit standards**

- **Increased auditor liability:** an auditor considering reporting outside of the main audit engagement would need to bill their client separately and expect the client to pay.

Future financial viability of local public bodies

Local public bodies are being asked to deliver more with less and be more innovative and commercial. CFOs are, of course, nervous at taking risks in the current environment and therefore would like more involvement by their auditors. They want auditors to challenge their forward-looking plans and assumptions and comment on the financial resilience of the organisation..

The ICAEW puts forward two solutions:

Solution a) If CFO's want additional advisory work, rather than just the audit, they can separately hire consultants (either accountancy firms not providing the statutory audit or other business advisory organisations with the required competencies) to work alongside them in their financial resilience work and challenging budget assumptions.

Solution b) Wider profession (IFAC, IAASB, accountancy bodies) should consider whether audit, in its current form, is sustainable and fit for purpose. Stakeholders want greater assurance, through greater depth of testing, analysis and more detailed reporting of financial matters. It is perhaps, time to look at the wider scope of audit. For example, could there be more value in auditors providing assurance reports on key risk indicators which have a greater future-looking focus, albeit focused on historic data?

More information can be found in the link below (click on the cover page)



The expectations gap

Challenge question:

How effectively is the audit meeting client expectations?



Financial Foresight: Our sustainable solution for cash-strapped councils

Grant Thornton's new Financial Foresight platform helps provide local councils with financial sustainability.

Launched in early January, Financial Foresight is a unique platform that can help us provide financial sustainability to under-pressure local councils, using a combination of data, statistics and our expertise.

In December 2018, the Chartered Institute of Public Finance and Accountancy (CIPFA) estimated that 15% of councils are showing signs of financial distress. If the rate at which these councils are dipping into their financial reserves continues, the National Audit Office estimates that 10% of councils will have depleted their reserves by 2021. The latest figures from our Insights and Analytics team suggest this could be closer to 20%.

Alarm bells started to chime at Somerset, Surrey, Lancashire and Birmingham councils last year. Yet it was the catastrophic near-collapse of Northamptonshire County Council - after it chose for five years not to raise council tax to cover its spiralling costs - that shone the spotlight on this widespread problem.

Unless local councils can get to grips with the situation, we'll all feel the effects of deeper cutbacks in public spending.

What's causing the problem?

After eight years of government austerity which followed the financial crash of 2008, many councils are now digging deep into their financial reserves in order to provide public services to their communities – from social care to fixing potholes in the road.

Pressure on funding is further impacted by rapidly rising costs – especially for demand-led services as populations grow and age. Within just a few years, many councils will not have any reserves left to fall back on, and some have already said they will be unable to provide any non-statutory services at this time. Overlay Brexit onto this situation, along with the anticipated financial pressures this will bring, and the outlook for local authorities is extremely challenging.

How can we help?

The investments we have made in analytics coupled with the commercial success of our CFO Insights tool has enabled us to develop credible financial forecasts for every local authority in the country. From this platform we developed Financial Foresight; a unique, forward-looking financial analytics and forecasting platform designed to support financial sustainability in local government.

Financial Foresight takes account of factors such as population growth, development forecasts and demand drivers to project local authority spend, income and operating costs. It provides a baseline view on the financial sustainability of every local authority in England and allows leaders in each authority to benchmark their own outlook against others. This will help councils move on from resilience – or just getting by – to financial sustainability.

Head of Local Government Paul Dossett said: "Through Financial Foresight and our associated strategy workshops, we can support local authorities to test and appraise a range of financial strategies and levers to develop a plan for a sustainable future. The critical importance of authorities understanding their financial resilience is only going to increase, so we're proud to be leading the market with this offering."

For more information, follow the links below:

<https://www.grantthornton.co.uk/en/insights/councils-are-at-risk-but-do-they-really-know-why/>

<https://www.grantthornton.co.uk/en/insights/from-resilience-to-financial-sustainability/>

Brexit Room - Increasing readiness and resilience within your locality

Local authorities have always navigated uncertainty and faced challenges on behalf of communities and this role has never been more important than now. Whilst the outcome of Brexit remains uncertain at a national level, it is essential for councils to set a path to ensure the continued delivery of vital services and the best possible outcomes for their local communities and economies. Whatever happens over the coming weeks and months, it is important that councils identify key Brexit scenarios and use these to frame robust local contingency plans.

From our conversations with the sector we know that local authorities are at different stages in their preparation for this big change.

Here's a brief summary of the issues that we are seeing:

Organisations

- Engaging non-EEA nationals within the workforce to ensure they understand their residency rights and are not receiving incorrect information from other sources
- Loss of access to key EU databases on policing and trading standards and changes to data sharing arrangements
- Uncertainty around continuation of EU funding beyond 2020 and the implementation of the UK Shared Prosperity Fund.

Services and suppliers

- Engaging with key suppliers to assess their risk profiles and resilience
- Dealing with the immediate strain on key services such as social care and trading standards
- Potential disruption to live procurement activities and uncertainty around the national procurement rulebook post OJEU.

Place

- Considering scenarios for economic shock, the associated social impact in the short, medium and long-term and the potential impact on local authority financial resilience
- Potential impacts on major local employers, key infrastructure investment programmes and transport improvements
- Civil contingencies and providing reassurance and support to residents and businesses.

Our approach

The Brexit Room is a flexible and interactive half-day workshop designed to sharpen your thinking on the impact Brexit could have on:

Your organisation – including considerations on workforce, funding, and changes to legislation

Your services and suppliers – ensuring that critical services are protected and building resilience within supply chains

Your place – using our proprietary Place Analytics tools we will help you to understand potential impacts on your local communities and economy and develop a place-based response, working with partners where appropriate.

We can work with you to identify key risks and opportunities in each of these areas whilst building consensus on the priority actions to be taken forward. You will receive a concise and focused write-up of the discussion and action plan to help shape the next stages of your work on Brexit.

For more information, follow the link below:

<https://www.grantthornton.co.uk/insights/brexit-local-leadership-on-the-front-line/>

Brexit

Challenge question:

How well advanced are your authority's plans for Brexit?



MHCLG – Social Housing Green Paper

The Ministry of Housing, Communities and Local Government (MHCLG) published the Social Housing Green Paper, which seeks views on government's new vision for social housing providing safe, secure homes that help people get on with their lives.

With 4 million households living in social housing and projections for this to rise annually, it is crucial that MHCLG tackle the issues facing both residents and landlords in social housing.

The Green Paper aims to rebalance the relationship between residents and landlords, tackle stigma and ensure that social housing can be both a stable base that supports people when they need it and also support social mobility. The paper proposes fundamental reform to ensure social homes provide an essential, safe, well managed service for all those who need it.

To shape this Green Paper, residents across the country were asked for their views on social housing. Almost 1,000 tenants shared their views with ministers at 14 events across the country, and over 7,000 people contributed their opinions, issues and concerns online; sharing their thoughts and ideas about social housing,

The Green Paper outlines five principles which will underpin a new, fairer deal for social housing residents:

- Tackling stigma and celebrating thriving communities
- Expanding supply and supporting home ownership
- Effective resolution of complaints
- Empowering residents and strengthening the regulator
- Ensuring homes are safe and decent

Consultation on the Green Paper is now underway, which seeks to provide everyone with an opportunity to submit views on proposals for the future of social housing and will run until 6 November 2018.

The Green Paper presents the opportunity to look afresh at the regulatory framework (which was last reviewed nearly eight years ago). Alongside this, MHCLG have published a Call for Evidence which seeks views on how the current regulatory framework is operating and will inform what regulatory changes are required to deliver regulation that is fit for purpose.

The Green Paper acknowledges that to deliver the social homes required, local authorities will need support to build by:

- allowing them to borrow
- exploring new flexibilities over how to spend Right to Buy receipts
- not requiring them to make a payment in respect of their vacant higher value council homes

As a result of concerns raised by residents, MHCLG has decided not to implement at this time the provisions in the Housing and Planning Act to make fixed term tenancies mandatory for local authority tenants.

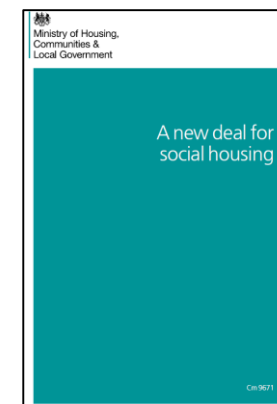
The Green Paper is available on the MHCLG's website at: <https://www.gov.uk/government/consultations/a-new-deal-for-social-housing>

Social Housing Green Paper Consultation



Challenge question:

What does the Social Housing Green Paper mean for your local authority?



Institute of Fiscal Studies: Impact of ‘Fair Funding Review’

The IFS has published a paper that focuses on the issues arising in assessing the spending needs of different councils. The government’s ‘Fair Funding Review’ is aimed at designing a new system for allocating funding between councils. It will update and improve methods for estimating councils’ differing abilities to raise revenues and their differing spending needs. The government is looking for the new system to be simple and transparent, but at the same time robust and evidence based.

Accounting for councils’ spending needs

The IFS note that the Review is seeking a less subjective and more transparent approach which is focused on the relationship between spending and needs indicators. However, like any funding system, there will be limitations, for example, any attempt to assess needs will be affected by the MHCLG’s funding policies adopted in the year of data used to estimate the spending needs formula. A key consideration will be the inherently subjective nature of ‘spending needs’ and ‘needs indicators’, and how this will be dealt with under any new funding approach. Whilst no assessment of spending needs can be truly objective, the IFS state it can and should be evidence based.

The IFS also note that transparency will be critical, particularly in relation to the impact that different choices will have for different councils, such as the year of data used and the needs indicators selected. These differentiating factors and their consequences will need to be understood and debated.

Accounting for councils’ revenues

The biggest source of locally-raised revenue for councils is and will continue to be council tax. However, there is significant variation between councils in the amount of council tax raised per person. The IFS identify that a key decision for the Fair Funding Review is the extent to which tax bases or actual revenues should be used for determining funding levels going forward.

Councils also raise significant sums of money from levying fees and charges, although this varies dramatically across the country. The IFS note that it is difficult to take account of these differences in a new funding system as there is no well-defined measure of revenue raising capacity from sales, fees and charges, unlike council tax where the tax base can be used.

The overall system: redistribution, incentives and transparency

The IFS also identify that an important policy decision for the new system is the extent to which it prioritises redistribution between councils, compared to financial incentives for councils to improve their own socio-economic lot. A system that fully and immediately equalises for differences in assessed spending needs and revenue-raising capacity will help ensure different councils can provide similar standards of public services. However, it would provide little financial incentive for councils to tackle the drivers of spending needs and boost local economics and tax bases.

Further detail on the impact of the fair funding review can be found in the full report <https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>.



National Audit Office – The health and social care interface

The NAO has published its latest ‘think piece on the barriers that prevent health and social care services working together effectively, examples of joint working in a ‘whole system’ sense and the move towards services centred on the needs of the individual. The report aims to inform the ongoing debate about the future of health and social care in England. It anticipates the upcoming green paper on the future funding of adult social care, and the planned 2019 Spending Review, which will set out the funding needs of both local government and the NHS.

The report discusses 16 challenges to improved joint working. It also highlights some of the work being carried out nationally and locally to overcome these challenges and the progress that has been made. The NAO draw out the risks presented by inherent differences between the health and social care systems and how national and local bodies are managing these.

Financial challenges – include financial pressures, future funding uncertainties, focus on short-term funding issues in the acute sector, the accountability of individual organisations to balance the books, and differing eligibility criteria for access to health and social care services.

Culture and structure – include organisational boundaries impacting on service management and regulation, poor understanding between the NHS and local government of their respective decision-making frameworks, complex governance arrangements hindering decision-making, problems with local leadership holding back improvements or de-stabilising joint working, a lack of co-terminus geographic areas over which health and local government services are planned and delivered, problems with sharing data across health and social care, and difficulties developing. person-centred care.

Strategic issues – include differences in national influence and status contributing to social care not being as well represented as the NHS, strategic misalignment of organisations across local systems inhibiting joint local planning, and central government’s unrealistic expectations of the pace at which the required change in working practices can progress..

This ‘think piece’ draws on the NAO’s past work and draws on recent research and reviews by other organisations, most notably the Care Quality Commission’s review of health and social care systems in 20 local authority areas, which it carried out between August 2017 and May 2018. The NAO note that there is a lot of good work being done nationally and locally to overcome the barriers to joint working, but often this is not happening at the scale and pace needed.

The report is available to download from the NAO’s website at:
<https://www.nao.org.uk/report/the-health-and-social-care-interface/>

The health and social care interface

Challenge question:

Has the Audit Committee considered the 16 challenges to joint working and what can be done to mitigate these?



A Caring Society – bringing together innovative thinking, people and practice

The Adult Social Care sector is at a crossroads. We have yet to find a sustainable system of care that is truly fit for purpose and for people. Our Caring Society programme takes a step back and creates a space to think, explore new ideas and draw on the most powerful and fresh influences we can find, as well as accelerate the innovative social care work already taking place.

We are bringing together a community of influencers, academics, investors, private care providers, charities and social housing providers and individuals who are committed to shaping the future of adult social care.

At the heart of the community are adult social care directors and this programme aims to provide them with space to think about, and design, a care system that meets the needs of the 21st Century, taking into account ethics, technology, governance and funding.

We are doing this by:

- hosting a 'scoping sprint' to determine the specific themes we should focus on
- running three sprints focused on the themes affecting the future of care provision
- publishing a series of articles drawing on opinion, innovative best practices and research to stimulate fresh thinking.

Our aim is to reach a consensus, that transcends party politics, about what future care should be for the good of society and for the individual. This will be presented to directors of adult social care in Spring 2019, to decide how to take forward the resulting recommendations and policy changes.

Scoping Sprint (Oct 2018)

Following opening remarks by Hilary Cottam (social entrepreneur and author of Radical Help) and Cllr Georgia Gould (Leader of Camden Council) the subsequent debate identified three themes for Grant Thornton to take forward:

1. Ethics and philosophy: What is meant by care? Should the state love?

2. Care in a place: Where should the power lie? How are local power relationships different in a local place?
3. Promoting and upscaling effective programmes and innovation

Sprint 1 – What do we really mean by 'Care'? (Dec 2018)

Julia Unwin, Chair of the Civil Societies Futures Project, and Sam Newman of Partners4Change sparked debate on why we need society to be brave enough to talk about care and the different levels at which 'care' can be applied to create a Caring Society.

Sprint 2 – A new role for the state? (7 Feb 2019)

Donna Hall, CEO of Wigan Council and Andrew of Reform, will start the debate on how can the state – nationally and locally – develop and adapt itself to be in service to a caring society.

To find out more or get involved:

- Join the conversation at #acaringssociety
- [Why we need to create a caring society](#)
- [Creating a caring society – the start of the debate](#) – the key themes from our first round table
- [Social care must take the starring role in its own story](#) – why the definition of social care is so important if the system is to change
- [Markets, trust & governance](#) – how social care can evolve to become a driver of local care economies
- [The future care leader](#) – Fiona Connolly, director of adult social care at Lambeth, discusses the importance of local care leaders working across the entire health system

Challenge question:

How is your authority engaging in the debate about the future of social care?



Care Homes for the Elderly – Where are we now?

It is a pivotal moment for the UK care homes market. In the next few months the government is to reveal the contents of its much-vaunted plans for the long-term funding of care for older people.

Our latest Grant Thornton report draws together the most recent and relevant research, including our own sizeable market knowledge and expertise, to determine where the sector is now and understand where it is heading in the future. We have spoken to investors, providers and market consultants to showcase the diversity and innovation that care homes can offer.

Flourishing communities are not a 'nice to have' but an essential part of our purpose of shaping a vibrant economy. Growth simply cannot happen sustainably if business is disconnected from society. That is why social care needs a positive growth framing. Far from being a burden, the sector employs more people than the NHS, is a crucible for technological innovation, and is a vital connector in community life. We need to think about social care as an asset and invest and nurture it accordingly.

There are opportunities to further invest to create innovative solutions that deliver improved tailored care packages to meet the needs of our ageing population.

The report considers a number of aspects in the social care agenda

- market structure, sustainability, quality and evolution
- future funding changes and the political agenda
- the investment, capital and financing landscape
- new funds and methods of finance
- future outlook.

The decline in the number of public-sector focused care home beds is a trend that looks set to continue in the medium-term. However, it cannot continue indefinitely as Grant Thornton's research points to a significant rise in demand for elderly care beds over the coming decade and beyond.

A strategic approach will also be needed to recruit and retain the large number of workers needed to care for the ageing population in the future. Efforts have already begun through education programmes such as Skills for Care's 'Care Ambassadors' to promote social care as an attractive profession. But with the number of nurses falling across the NHS as well, the Government will need to address the current crisis.

But the most important conversation that needs to be had is with the public around what kind of care services they would like to have and, crucially, how much they would be prepared to pay for them. Most solutions for sustainable funding for social care point towards increased taxation, which will generate significant political and public debate. With Brexit dominating the political agenda, and the government holding a precarious position in Parliament, shorter-term funding interventions by government over the medium-term look more likely than a root-and-branch reform of the current system. The sector, however, needs to know what choices politicians, and society as a whole, are prepared to make in order to plan for the future.

Copies of our report can be requested on our website



Grant Thornton

Challenge question:

How effective is the Council's engagement with the social care sector?



In good company: Latest trends in local authority trading companies

Our recent report looks at trends in LATC's (Local Government Authority Trading Companies). These deliver a wide range of services across the country and range from wholly owned companies to joint ventures, all within the public and private sector.

Outsourcing versus local authority trading companies

The rise of trading companies is, in part, due to the decline in popularity of outsourcing. The majority of outsourced contracts operate successfully, and continue to deliver significant savings. But recent high profile failures, problems with inflexible contracts and poor contract management mean that outsourcing has fallen out of favour. The days of large scale outsourcing of council services has gone.

Advantages of local authority trading companies

- Authorities can keep direct control over their providers
- Opportunities for any profits to be returned to the council
- Provides suitable opportunity to change the local authority terms and conditions, particularly with regard to pensions, can also bring significant reductions in the cost base of the service
- Having a separate company allows the authority to move away from the constraints of the councils decision making processes, becoming more agile and responsive to changes in demand or funding
- Wider powers to trade through the Localism act provide the company with the opportunity to win contracts elsewhere

Choosing the right company model

The most common company models adopted by councils are:

Wholly
owned

Joint
Ventures

Social
Enterprise

Wholly owned companies are common because they allow local authorities to retain the risk and reward. And governance is less complicated. Direct labour organisations such as Cormac and Oxford Direct Services have both transferred out in this way.

JVs have become increasingly popular as a means of leveraging growth. Pioneered by Norse, Corserv and Vertas organisations are developing the model. Alternatively, if there is a social motive rather than a profit one, the social enterprise model is the best option, as it can enable access to grant funding to drive growth.

Getting it right through effective governance

While there are pitfalls in establishing these companies, those that have got it right are: seizing the advantages of a more commercial mind-set, generating revenue, driving efficiencies and improving the quality of services. By developing effective governance they can be more flexible and grow business without micromanagement from the council.

LATC's need to adapt for the future

- LATC's must adapt to developments in the external environment
 - These include possible changes to the public procurement rules after Brexit and new local authority structures. Also responding to an increasingly crowded and competitive market where there could be more mergers and insolvencies.
- Authorities need to be open to different ways of doing things, driving further developments of new trading companies. Relieving pressures on councils to find the most efficient ways of doing more with less in today's austere climate.

Overall, joint ventures can be a viable alternative delivery model for local authorities. Our research indicates that the numbers of joint ventures will continue to rise, and in particular we expect to see others follow examples of successful public-public partnerships.



[Download the report here](#)

Links

Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

<https://www.grantthornton.co.uk/en/insights/a-caring-society/>

<https://www.grantthornton.co.uk/en/insights/care-homes-where-are-we-now/>

<https://www.grantthornton.co.uk/en/insights/the-rise-of-local-authority-trading-companies/>

National Audit Office link

<https://www.nao.org.uk/report/the-health-and-social-care-interface/>

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>

<https://www.nao.org.uk/report/local-authority-governance-2/>

Ministry of Housing, Communities and Local Government links

<https://www.gov.uk/government/news/social-housing-green-paper-a-new-deal-for-social-housing>

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728722/BRR_Pilots_19-20_Prospectus.pdf

Institute for Fiscal Studies

<https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>

Public Sector Audit Appointments

<https://www.psa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>



Informing the audit risk assessment Telford & Wrekin Council 2018/19



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Purpose

The purpose of this report is to contribute towards the effective two-way communication between auditors and the Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Audit Committee's oversight of the following areas:

- fraud
- laws and regulations
- going concern
- related parties
- accounting estimates.

This report includes a series of questions on each of these areas and the response we have received from the Council's management. The Audit Committee should consider whether these responses are consistent with the its understanding and whether there are any further comments it wishes to make.

Fraud

Matters in relation to fraud

ISA(UK&I)240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Council's management.

Fraud risk assessment

Question

Has the Council assessed the risk of material misstatement in the financial statements due to fraud? What are the results of this process?

Management response

The risk of material misstatement in the financial statements due to fraud is low because:

- Arrangements are in place to prevent and detect fraud which includes the work undertaken by Internal Audit, The Investigation Team, Council Tax and Benefits Teams.
 - The Internal Audit plan covers the key systems which feed into the Statement of Accounts and audits are undertaken on a risk-based approach.
 - The Managing Director, Directors, Assistant Directors and Service Delivery Managers complete and sign assurance statements on an annual basis confirming that the governance framework has been operating within their areas of responsibility.
 - There is an Anti-Fraud and Corruption Policy in place which is monitored and reviewed. Periodic reports are provided to Senior Management Team and cascaded to teams.
-

Fraud risk assessment (continued)

Question

How are the Audit Committee satisfied that the overall control environment is robust.

In particular what processes does the Council have in place to identify and respond to risks of fraud in the organisation?

Management response

Assurance is provided to the Audit Committee through:

- Quarterly internal audit reports are presented to the Committee providing an update on the work of internal audit with particular focus on Amber and Red reports.
- Directors/Assistant Directors/Service Delivery Managers attend, on request, to provide additional information where requested.
- External Audit provide an Annual Audit Letter to the Committee highlighting any areas of concern and recommendations following the annual audit of accounts.
- An Anti-Fraud Report is presented at the end of each financial year.
- The Strategic Risk Register is presented to Audit Committee.
- Finance & Legal comments in all reports; business case approval for major investments .

Processes in place to identify and respond to fraud:

- Internal Audit work plan.
- Internal Audit along with the Investigations Team undertake proactive fraud work based on a fraud risk register.
- Fraud and corruption activities are undertaken by Trading Standards.
- Anti-Fraud & Corruption Policy.
- Whistleblowing and fraud reporting procedures are in place which allow staff and members of the public to report concerns relating to fraud and error to the Investigation Team via a variety channels.

Fraud risk assessment (continued)

Question

Management response

Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?

Council Tax Support, Single Person Discount and Council Tax liability are areas where fraud is common. The Investigation Team undertake considerable work in this area. There are strong reporting channels where staff and members of the public report their concerns. The Revenues Service undertake an annual Single Person Discount review exercise by using credit data obtained from a third party, and they also take part in the National Fraud Initiative's single person discount review.

Direct Payment and Social Care is a growing area of fraud. Significant work has been undertaken by the Investigation Team to increase awareness of fraud in this area and encourage staff to report their concerns.

Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?

Management is not aware of any areas where there is potential for override of control or inappropriate influence over the financial reporting process.

Reconciliations are undertaken regularly and there is appropriate separation of duties in place with review/challenge by Senior Finance Officers.

How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?

The Audit Committee's terms of reference include a number of measures concerning internal control and fraud matters. In the main these include:

- Receiving regular updates on the work of internal audit which would include fraud risks
- Receiving an annual report on anti-fraud and corruption
- Approving the Councils Anti-Fraud & Corruption Policy and the Whistleblowing Policy

What arrangements are in place to report fraud issues and risks to the Audit Committee?

Fraud risk assessment (continued)

Question

Management response

How does the Council communicate and encourage ethical behaviour of its staff and contractors?

Training – Fraud module included for all new starters.
Core behaviours for all employees.
Induction of new employees.
Whistleblowing Policy.
Publicity on fraud matters that have been taken to court.
Anti-Fraud & Corruption Policy.

How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?

The Whistleblowing Policy encourages staff to report any concerns regarding fraud and irregularity through a variety of channels.
The Council's Core behaviours encourage staff to report any fraudulent/otherwise unacceptable behaviour.
The authority receives a constant flow of allegations, most notably relating to Revenues related fraud by the general public. Referrals have also been received relating to Adult Social Care and a number of internal matters.

Are you aware of any related party relationships or transactions that could give rise to risks of fraud?

We are not aware of any party relationships or transactions that could give rise to fraud.
Related party transactions have to be disclosed by elected Members and senior officers.
All members and officers have to disclose relevant interests in the register of interests.

Fraud risk assessment (continued)

Question

Are you aware of any instances of actual, suspected, or alleged fraud either within the Council as a whole or within specific departments since 1 April 2018?

Are you aware of any whistleblower reports or reports under the Bribery Act since 1 April 2018?
If so how does the Audit Committee respond to these?

Management response

In terms of internal fraud against the council, one matter has been under investigation and has been passed over to the Police since April 2018.

External to the Council, there have been a number of allegations received regarding fraud by members of the public. These are largely related to Revenues matters. These matters are investigated by the Investigation Team.

No specific whistle blower reports or Bribery Act referrals have been made since April 2018.

Laws and regulations

Matters in relation to laws and regulations

ISA(UK&I)250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the noncompliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question

Management response

What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?

How does management gain assurance that all relevant laws and regulations have been complied with?

The Council has a robust Governance Framework in place.

The Council has a Monitoring Officer and Section 151 Officer who provide assurance both supported by adequately staffed and trained teams of professional officers.

Council/Cabinet reports include a Legal Comment which is completed and signed off by a senior officer in Legal Services.

Internal Audit Work.

How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?

As above. The Monitoring Officer ensures lawfulness and fairness of decision making. The Monitoring Officer will report to Full Council if he considers that any proposal, decision or omission would give rise to unlawfulness. Other Statutory Officers of the authority also provide assurance in relation to their specific function.

Have there been any instances of non-compliance or suspected non-compliance with law and regulations since 1 April 2018, or earlier with an on-going impact on the 2018/19 financial statements?

No – the position will be reviewed again at the 31 March each year as part of the annual accounts process.

What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?

Legal and Insurance work together to identify and evaluate any potential litigation or claims against the Council.

Potential liabilities are included in the Statement of Accounts.

Is there any actual or potential litigation or claims that would affect the financial statements?

There is one case where a claim has been made for £1m, the Council has made an offer of £20,000. This case is ongoing.

Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate noncompliance?

None

Impact of laws and regulations (continued)

Question

What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?

How does management gain assurance that all relevant laws and regulations have been complied with?

Management response

The Council has a robust Governance Framework in place:

- The Council has a Monitoring Officer and Section 151 Officer who provide assurance both supported by adequately staffed and trained teams of professional officers.
- Council/Cabinet reports include a Legal Comment which is completed and signed off by a senior officer in Legal Services.
- Internal Audit Work.

Going concern

Matters in relation to laws and regulations

ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

Going concern is a fundamental principle in the preparation of financial statements. Under the going concern assumption, a council is viewed as continuing in operation for the foreseeable future with no necessity of liquidation or ceasing trading. Accordingly, the Council's assets and liabilities are recorded on the basis that assets will be realised and liabilities discharged in the normal course of business. A key consideration of going concern is that the Council has the cash resources and reserves to meet its obligations as they fall due in the foreseeable future.

We have discussed the going concern assumption with key Council officers and reviewed the Council's financial and operating performance. Below are key questions on the going concern assumption which we would like the Audit Committee to consider.

Going concern considerations

Question

Does the Council have procedures in place to assess the Council's ability to continue as a going concern?

Management response

There is a robust Service & Financial Planning process and Strategy in place.

Regular financial monitoring takes place with regular updates being presented to Senior Management Team and Cabinet; cost improvement plans are in place for areas of significant pressure.

Overall spend is within budget and the Council has a long track record of strong financial management being under budget for the past 11 years and will have delivered ongoing savings totalling £117m by the end of 2018/19 in accordance with the budgets approved for each year.

Is management aware of the existence of other events or conditions that may cast doubt on the Council's ability to continue as a going concern?

None known

Are arrangements in place to report the going concern assessment to the Audit Committee?

Yes - through the Statement of Accounts

How has the Audit Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements?

The Audit Committee receives both the draft and final Statement of Accounts and has opportunity to raise queries. Prior to approval of the final SOA officers provide an overview/training session highlighting key matters in the accounts and again providing opportunity for queries.

Members have access to all Council reports, including the budget and regular financial management reports which provide assurance on the current and projected financial position of the authority. The Council has a long track record of sound financial management having slightly underspent its budget for more than 10 consecutive years despite having to deliver £117m of ongoing budget savings.

Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Council's Business Plan and the financial information provided to the Council throughout the year?

Yes – financial assumptions in the Statement of Accounts, revenue budget, capital programme, treasury management strategy and Council plan are all consistent.

Going concern considerations (continued)

| Question | Management response |
|--|---------------------|
| Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern? | Yes |
| Have there been any significant issues raised with the Audit Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control). | No |
| Does a review of available financial information identify any adverse financial indicators including negative cash flow? If so, what action is being taken to improve financial performance? | No |

Going concern considerations (continued)

Question

Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives?

If not, what action is being taken to obtain those skills?

Management response

Yes although given staffing reductions to meet savings targets, there are some single points of failure which are addressed through workforce planning processes as far as possible.

The recruitment process, including job descriptions and person specifications are designed to ensure the appropriate skills and experience are sought.

Restructuring/service transformation have a focus on ensuring skills and experience to deliver services are in place.

The Council is active in terms of workforce planning, which aligns with service planning and delivery of service objectives.

There is a comprehensive corporate learning programme in place for managers and other employees as well as specific training relevant to specific roles.

There is a strong focus on organisational development, including a Leadership programme.

The Council will engage external professionals where specific skills are required that are not available in-house, or agency workers will be engaged when necessary to fill essential roles on a short-term basis. A Use of Consultants Business Case has to be approved to ensure appropriate governance in place.

Related parties

Matters in relation to Related Parties

Local Authorities are required to comply with International Accounting Standard 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Council (i.e. subsidiaries);
- associates and/or joint ventures;
- an entity that has an interest in the Council that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK&I) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related party considerations have been set out below and management has provided its response.

Related parties considerations

Question

What controls does the Council have in place to identify, account for, and disclose related party transactions and relationships?

Management response

Register of Interests for Members and Officers.

Completion of annual declaration by Senior Officers and Members as part of Statement of Accounts process.

Governance Statement.

Who have the Council identified as related parties?

See the Statement of Accounts.

Accounting estimates

Matters in relation to Accounting Estimates

Local Authorities need to apply appropriate estimates in the preparation of their financial statements. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. This objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Council identified the transactions, events and conditions that may give rise to the need to an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Council are using as part of their accounts preparation: these are detailed in appendix 1 to this report.

The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

Accounting estimates considerations

| Question | Management response |
|--|---|
| Are the management aware of transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgment? | No |
| Are the management arrangements for the accounting estimates, as detailed in Appendix 1 reasonable? | Yes – see Appendix 1 below. |
| How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate? | The accounting policies and notes included in the Statement of Accounts provide information. External Audit provide assurance. |

Appendix 1 - Accounting estimates

| Estimate | Method / model used to make the estimate | Controls used to identify estimates | Whether management have used an expert | Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates | Has there been a change in accounting method in year? |
|--|--|-------------------------------------|---|---|---|
| Property plant & equipment valuations. | <p>Full valuation involving an inspection is carried out every 5 years on a rolling programme for operational properties. An impairment and valuation review is carried out as a desk value for properties not valued in year.</p> <p>Investment properties are valued annually.</p> <p>Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second-hand market or latest list price adjusted for asset condition.</p> <p>Historical cost is used for infrastructure assets and community assets.</p> | Internal Valuer used | Use Estates & Investments Service (RICS Registered Valuers) for the property element of PPE valuations. | Valuations are based on recommendations by CIPFA and made in line with RICS guidance. Assumptions are set out in the valuer's report including comments on market uncertainty and alternative valuation methods that may return a different result. | No |

Appendix 1 - Accounting estimates

| Estimate | Method / model used to make the estimate | Controls used to identify estimates | Whether management have used an expert | Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates | Has there been a change in accounting method in year? |
|--|---|---|--|--|---|
| Estimated remaining useful lives of PPE. | The following useful lives have been used in the calculation of depreciation: <ul style="list-style-type: none"> • Other Land and Buildings – 5 to 60 years • Vehicles, Plant, Furniture & Equipment – 3 to 25 years • Infrastructure – 25 to 40 years | Specific asset lives applied to buildings. Consistent asset lives applied to each asset category. | Use Estates & Investment Service (RICS Reistered valuer) for buildings valuations. Other assets considered by Estates & Investment Service Delivery Manager and Group Accountant Corporate and Health & Well-Being Finance | The length of the life is determined at the point of acquisition or revaluation. Major components are depreciated separately when they meet the componentisation policy. | No |
| Depreciation & Amortisation | Depreciation is provided for all fixed assets with a finite useful life on a straight-line basis. | Consistent application of depreciation method across all assets. | No | The asset is not depreciated until it is available for use and each significant part of PPE is depreciated separately. Asset lives are determined at acquisition/revaluation. Depreciation is calculated on a straight line basis. The asset lives are recorded in the asset register. | No |

Appendix 1 - Accounting estimates

| Estimate | Method / model used to make the estimate | Controls used to identify estimates | Whether management have used an expert | Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates | Has there been a change in accounting method in year? |
|-------------|--|--|--|--|---|
| Impairments | <p>Assets are assessed at the year-end for any indication that an asset may be impaired. An impairment and valuation review is carried out as a desk exercise for properties not valued in the year. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.</p> <p>Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired.</p> <p>This assessment is made by the internal valuer for land and buildings and by Property Services Manager and capital accountant (and other relevant officers for the asset type) for other assets.</p> | Impairment reviews at year end Internal Valuer used | Use Property Services (RICS Registered valuer) for buildings valuations. | Valuations are made in-line with RICS guidance. | No |

| Estimate | Method / model used to make the estimate | Controls used to identify estimates | Whether management have used an expert | Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates | Has there been a change in accounting method in year? |
|--------------------------------------|---|---|--|--|---|
| Overhead allocation. | Central support costs are apportioned to services based on an agreed criteria as detailed in the CEC Allocation spreadsheet. | All support service costs centres are allocated according to the agreed CEC Allocation spreadsheet. | No | Apportionment bases are reviewed annually. | No |
| Measurement of Financial Instruments | The Council values financial instruments at amortised cost. (The fair value of financial instruments are disclosed in the notes to the accounts). | Take advice from finance professionals . | External Treasury advisors & PWLB | Take advice from finance professionals and external Treasury advisors. | No |

| Estimate | Method / model used to make the estimate | Controls used to identify estimates | Whether management have used an expert | Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates | Has there been a change in accounting method in year? |
|-----------------------------|---|--|--|---|---|
| Provisions for liabilities. | Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. Provisions are charged as an expense to the appropriate service line in the CI&ES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. | Charged in the year the Council becomes aware of the obligation. | No | Estimated settlements are reviewed at the end of each financial year. Where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received by the Council. | No |

| Estimate | Method / model used to make the estimate | Controls used to identify estimates | Whether management have used an expert | Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates | Has there been a change in accounting method in year? |
|---------------------|---|---|--|---|---|
| Bad Debt Provision. | A provision is estimated using a proportion basis of an aged debt listing. | Revenues provide the aged debt listing and Finance calculate the provision. | No | Consistent proportion used across aged debt as per the Code. | No |
| Accruals | Finance team collate accruals of expenditure and income. Activity is accounted for in the financial year that it takes place, not when money is paid or received. | Review financial systems and question service managers to identify where goods have been received but not paid for. | No | Accruals for income and expenditure often based on known values. Where accruals are estimated the latest available information is used. | No |

| Estimate | Method / model used to make the estimate | Controls used to identify estimates | Whether management have used an expert | Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates | Has there been a change in accounting method in year? |
|--|---|---|---|---|---|
| Pension liability | The Council is an admitted body to the Shropshire County Local Government Pension Scheme. The administering authority (Shropshire Council) engage the Actuary who provides the estimate of the pension liability. | Payroll data is provided to the Actuary. Management reconcile this estimate of contributions to the actuals paid out in the year. | Consulting actuary | As disclosed in the actuary's report. Complex judgements including the discount rate used, rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. | No |
| Non adjusting events – events after the Balance Sheet date | Section 151 Officer makes the assessment. If the event is indicative of conditions that arose after the balance sheet date this is an un-adjusting event. A note to the accounts is included, identifying the nature of the event and where possible estimates of the financial effect. | The Section 151 Officer is notified by relevant managers. | This would be considered on individual circumstances. | This would be considered on individual circumstance. | No |

| Estimate | Method / model used to make the estimate | Controls used to identify estimates | Whether management have used an expert | Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates | Has there been a change in accounting method in year? |
|-----------------------------|--|---|--|---|---|
| PFI Finance Lease Liability | The operator's financial model is used as the basis for calculating the liability. | The operator's financial model is used as the basis for calculating entries and this is reviewed by Finance on an annual basis. | No | The construction elements of the annual unitary charge is accounted for as a finance lease. Minimum lease payments are made under these leases and assets recognised under these leases are accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life. | No |





Annual Report on grants and returns 2017/18

Telford & Wrekin Council

January 2019



Contents

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

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Ian Pennington, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (andrew.sayers@kpmg.co.uk). After this, 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 2017/18 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 2017/18 is:

- Under the Public Sector Audit Appointments arrangements we certified one claim, the Council's 2017/18 Housing Benefit Subsidy return. This had a value of £67.5m 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 £10.3m.

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 version of the benefits system; 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 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 2017/18 Housing Benefit Subsidy grant was £9,239 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 2017/18 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 overleaf | 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 our 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 2017/18 was £12,239.

Public Sector Audit Appointments certification arrangements

Public Sector Audit Appointments set an indicative fee for our work on the Council's Housing Benefit Subsidy claim in 2017/18 of £9,239. Our actual fee was the same as the indicative fee, and this compares to the 2016/17 fee set by PSAA of £7,155.

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 2017/18 was in line with 2016/17.

Breakdown of fees for grants and returns work

| Breakdown of fee by grant/return | | |
|----------------------------------|---------------|---------------|
| | 2017/18 (£) | 2016/17 (£) |
| Housing Benefit Subsidy claim | 9,239 | 7,155 |
| Teachers' Pensions Return | 3,000 | 3,000 |
| Total fee | 12,239 | 10,155 |



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1 PURPOSE

- 1.1 To update members on the work of Internal Audit for the period 8 September 2018 to 4 January 2019.

2 RECOMMENDATIONS

- 2.1 That members of the Audit Committee note the information contained in this report in respect to Internal Audit work between 8 September 2018 to 4 January 2019

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 2018/19 in respect to audit reports between 8/9/18 - 4/1/19.

4 PREVIOUS MINUTES

Audit Committee:

30 January 2018
29 May 2018
24 July 2018
2 October 2018

5 INTERNAL AUDIT UPDATE

- 5.1 This report provides information on the work of Internal Audit from 8 September 2018 to 4 January 2019 and provides an update on the progress of previous audit reports issued.
- 5.2 The key focus for the team during this period was the completion of the audit plan including the fundamental systems audits.
- 5.3 The following internal audit update report appendices are attached:
- i) **Appendix 1** – List of final reports issued this period 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 this period of 1 day or more.
 - iii) **Appendix 3** - Previous graded reports 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 2 amber & 3 red reports issued this period.

- 5.4 Appendix 1 shows 12 reports were issued this period. 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 |
|--|--------------------------------|---|
| HR / Payroll – PSE system reconciliation | -81.52 | Audit split between current and new HR & Payroll systems. Remainder of work on the new system to be carried out February – March 2019 |
| Local Transport Capital block funding grant | -44.67 | Grant has been awarded for a number of years so processes have been streamlined. |
| Bus Subsidy Grant | +57 | Queries and number of different services involved resulted in complex audit. |
| Permit for Utilities working on the highways | -35.14 | New audit areas and at time of planning unsure of days required. |
| Council Tax & NNDR | +13.94 | Had to re-perform sample testing due to ICT issues. |
| Direct Payments Children & Adults | +14.5 | Lots of compliance testing undertaken and various service areas involved making audit complex. |
| Burton Borough School | + 33.29 | Audit scope extended to include catering income and 2 imprest accounts. |

The reasons for the variances are as explained above and the scopes and time allocations for future audits will be informed by this information and will be closely monitored.

- 5.5 From Appendix 1 there are 2 amber and 3 red reports issued during this period.

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

| Audit Area | Days | Explanation |
|---|-------------|---|
| Burton Borough | 12.20 | Additional area audited |
| Council Tax & NNDR (2018-19) | 22.26 | No concerns, under budgeted time |
| Electronic Case File Audit (Care first) | 18.23 | No concerns, under budgeted time |
| General Ledger (2018-19) | 17.43 | No concerns, under budgeted time |
| My Options (Young Peoples Services) | 17.26 | No concerns, under budgeted time |
| Ombudsman Complaints | 10.43 | The time spent depends on how many complaints are received. |
| Phoenix Leisure Centre | 10.22 | No concerns, under budgeted time |
| Purchase Ledger (2018-19) | 21.86 | No concerns, under budgeted time |

- 5.7 From Appendix 3 there are no reports which remain Red/Amber after a follow up has been undertaken.
- 5.8 All other areas reported on in this update report but not highlighted to members are either improving or the follow ups are in progress or planned. Internal Audit is confident and has been assured by management that controls have and will continue to improve in all areas where recommendations have been made. There are no other issues to bring to the attention of the Committee at this time.

6 Quality Assurance and Improvement Programme

- 6.1 The Audit & Governance Team Leader has continued to undertake quarterly spot checks of audit files to review compliance to the Public Sector Internal Audit Standards (PSIAS) alongside the normal quality review process applied to all audit assignments. No issues were identified during this period.

7 OTHER CONSIDERATIONS

| AREA | COMMENTS |
|---------------------------------|--|
| Equal Opportunities | All members of the Audit Team have attended equal opportunities/ diversity training. If any such issues arose during any work the appropriate manager would be notified. |
| Environmental Impact | All members of the Audit Team are environmentally aware and if any issues were identified they would be notified to the appropriate manager. |
| Legal Implications | <p>The Accounts and Audit Regulations 2015 (Part 2, paragraph 5) state that the Council must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. The information set out in this report illustrates the work that has been undertaken to meet the appropriate statutory requirements.</p> <p>In the event that an audit reveals a legal issue or concern this is referred to the Council's Legal Services Team and/or the Council's Monitoring Officer for further advice and assistance.</p> |
| Links with Corporate Priorities | All aspects of the Audit teams work support good governance which underpins the achievement of the Council's objectives and priorities. |
| Risks and Opportunities | All aspects of the Audit teams work supports managers and the Council to identify and manage their risks and opportunities. |
| Financial Implications | Financial monitoring is currently showing that Audit, IG, Insurance & Investigations are operating within budget for 2018/19. There are therefore no financial implications arising from adopting the recommendations of this report. |
| Ward Implications | The work of the Audit team encompasses all the Council's activities across the Borough and therefore it operates within all Council Wards. |

BACKGROUND PAPERS

Annual Audit Plan 2018/19 and Charter
Public Sector Internal Audit Standards – Applying the IIA International Standards to the UK
Public Sector 2013 and updated January 2017
CIPFA Local Government Application Note – April 2013
Accounts and Audit Regulations – 2015

Report by: Tracey Drummond Principal Auditor. Telephone 383105

FINAL REPORTS ISSUED 8 SEPTEMBER 2018 – 4 January 2019

| Audit Area | Opinion | Follow Up Due | Days allocated | Days Taken | Variance % |
|--|---------------------------------|----------------|--|------------|---|
| Southall School | Red | January 2019 | 9.25 | 8.98 | -2.92 |
| Sir Alexander Fleming Primary | Red | January 2019 | 8.25 | 8.57 | +3.88 |
| Direct Payments Children & Adults | Adults= Red Children = Amber | March 2019 | 14 | 16.03 | +14.5 |
| My Options Young Peoples Services - Income | Amber | December 2018 | 30 days for 3 pieces of work in the service area | 12.57 | To be reported on once all work is complete |
| Queenswood Primary School | Yellow | April 2019 | 8.25 | 7.48 | -9.33 |
| Permit for Utilities working on the highways | Yellow | May 2019 | 7 | 4.54 | -35.14 |
| Local Transport Capital block funding grant | Green | n/a | 3 | 1.66 | -44.67 |
| HR / Payroll – PSE system reconciliation | Green | Not Applicable | 25 | 4.62 | -81.52 |
| Bus Subsidy Grant | Green | n/a | 3 | 4.71 | +57 |
| Council Tax & NNDR | Green | N/A | 38 | 43.3 | 13.94 |
| Burton Borough School | Green | N/A | 9.25 | 12.33 | 33.29 |
| Electronic file review | Green | N/A | 23 | 22.66 | -1.48 |

AUDIT WORK UNDERTAKEN FOR THIS PERIOD (8/9/18) - 4/1/19) FOR A PERIOD OF 1 DAY OR MORE

| Audit area | Days |
|---|-------------|
| Advice & Consultancy including org change | 8.83 |
| Benefits (2018-19) | 1.82 |
| Burton Borough | 12.20 |
| Bus Subsidy Grant | 4.56 |
| Cash Collection (2018-19) | 7.77 |
| Council Tax & NNDR (2018-19) | 22.26 |
| Direct Payments | 1.82 |
| Electronic Case File Audit (Care first) | 18.23 |
| Follow ups | 4.87 |
| General Ledger (2018-19) | 17.43 |
| HCA Land Deal - Profit Share / Review Processes | 4.51 |
| HR/Payroll (2018-19) | 1.14 |
| Local Transport Capital Block Funding grant | 1.66 |
| Member reporting | 2.60 |
| My Options (Young Peoples Services) | 17.26 |
| Ombudsman Complaints | 10.43 |
| Phoenix Leisure Centre | 10.22 |
| Procurement - Contract review process | 2.85 |
| Purchase Ledger (2018-19) | 21.86 |
| Queenswood Primary School | 4.99 |
| Red & Amber Follow up - Setting up Home Grant | 1.02 |
| Review of leisure centre programme | 2.52 |
| Sales Ledger (2018-19) | 4.83 |
| Sir Alexander Fleming Primary School | 7.33 |
| Strengthening Families Grant | 1.68 |

STATUS ON FINAL REPORTS PREVIOUSLY ISSUED AS AT 4/1/19

APPENDIX 3

| Audit | Original Opinion | Updated Opinion | Previous Comments | Status as at January 2019 |
|---|-------------------------|------------------------|---|---|
| Ski & Snowboard Centre | Red | Yellow | 3 rd follow up due December 2018 | In progress |
| Wellington Leisure Centre | Amber | Yellow | Follow up completed moved to Yellow | 2 nd follow up to be completed February 2019 |
| Arthog | Amber | Yellow | 3 rd Follow up in progress. | 3 rd follow up undertaken December 2018. The report remains yellow. No further follow up to be undertaken. |
| Additional Payments to Foster Carers | Amber | Green | 3 rd follow up to be completed after October 2018 once policy has been approved. | Follow up undertaken December 2018. The report has been regraded green. |
| Nuplace | Amber | Green | | Follow up undertaken December 2018. The report has been regraded green. |
| Off Contract Agency Staff | Amber | Yellow | 2 nd follow up due November 2018 | In progress |
| Deprivation of Liberty Safeguards (DoLS). | Red | Green | 2 nd follow up due December 2018 | Follow up undertaken Dec/Jan and regraded to a green grading. |
| Core Groups | Amber | Yellow | 2 nd Follow Up due December 2018 | Follow to be completed February 2019 |
| Discharge From Hospital | Amber | Yellow | 2 nd Follow Up Due December 2018 | Follow to be completed February 2019 |
| ICT Change Release Management | Yellow | n/a | Follow up to be undertaken October 2018 | Follow up undertaken December 2018. The report remains yellow. No further follow up to be undertaken. |
| St Luke's Primary School | Yellow | Green | Follow up in progress | Follow up undertaken September 2018. The report has been regraded green. |

STATUS ON FINAL REPORTS PREVIOUSLY ISSUED AS AT 4/1/19

APPENDIX 3

| Audit | Original Opinion | Updated Opinion | Previous Comments | Status as at January 2019 |
|--|-------------------------|------------------------|---|--|
| Meadows Primary | Yellow | Green | Follow up in progress | Follow up undertaken October 2018. The report has been regraded green. |
| My Options Comfort fund | Amber | Yellow | 2 nd follow up due December 2018 | In progress |
| Stirchley Recreation Centre | Yellow | Green | Follow up due November 2018 | Follow up undertaken December 2018. The report has been regraded green. |
| ICT Strategy and Risk Management * | Yellow | Green | Follow up due November 2018 | Follow up undertaken December 2018. Report regraded green. No further follow up to be undertaken. |
| ICT Active Directory & Single Sign on * | Yellow | n/a | Follow up due November 2018 | In progress |
| My Options Young Peoples Services – Purchasing & Procurement | Amber | Yellow | Follow up in progress | 1 st Follow up undertaken September 2018. Report regraded yellow. 2 nd follow up due March 2019 |
| Setting up Home Grant | Amber | n/a | Follow up due October 2018 There has been a change in Team Leader since the audit was finalised. A copy of the report has been shared with the new Team Leader and he is reviewing the agreed actions. A more detailed update will be provided as part of the January 2019 committee meeting | A new audit has been requested by the Children’s Safeguarding & Early Help Assistant Director due to both system and operational changes. This has been agreed and will be added to the 2019/20 audit plan therefore no follow up has been undertaken |

STATUS ON FINAL REPORTS PREVIOUSLY ISSUED AS AT 4/1/19

Status on reports reported to Audit Committee October 2018


| Audit | Original Opinion | Updated Opinion | Status as at January 2019 |
|---|-------------------------|------------------------|--|
| Review Procedures Services to Schools (Commercial Projects) | Yellow | n/a | To be followed up January 2019 |
| John Randall Primary School | Yellow | n/a | To be followed up January 2019 |
| Planning Income | Green | n/a | Green report therefore no follow up will be undertaken |
| Treasury Management | Green | n/a | Green report therefore no follow up will be undertaken |
| Ladygrove Primary school | Yellow | n/a | To be followed up March 2019 |

SOUTHALL SCHOOL:

Management Summary

An audit review commenced¹ in June 2018, to provide an opinion on the risk, governance and control environment for Southall School 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;"><p>Poor</p></div> | <p>MANAGEMENT SUMMARY</p> <p>Based on objectives tested (<i>See Appendix 2</i>), there is a sound system of control but there is evidence of non-compliance with some of the 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 3.</p> | | | | | | |
| <p>AREAS OF PARTICULAR CONCERN</p> <p>At the time of the audit the findings determined that there were several areas of particular concern. Areas included the lack of understanding regarding financial reconciliations, the lack of verification to source documents when checking both payroll and financial records. Income had remained in the safe until questioned by the auditors and failure to comply with the new Data Protection Act 2018 requirements.</p> | <p>RECOMMENDATION RISK RATING</p> <table border="1" data-bbox="1312 1010 1845 1155"><tr><td style="background-color: red; color: white; text-align: center;">High</td><td style="background-color: yellow; text-align: center;">Medium</td><td style="background-color: green; text-align: center;">Low*</td></tr><tr><td style="text-align: center;">8</td><td style="text-align: center;">10</td><td style="text-align: center;">7</td></tr></table> <p><i>*See advisory points on Appendix 1</i></p> | High | Medium | Low* | 8 | 10 | 7 |
| High | Medium | Low* | | | | | |
| 8 | 10 | 7 | | | | | |


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

SIR ALEXANDER FLEMING:

Management Summary

An audit review commenced² in September 2018, to provide an opinion on the risk, governance and control environment for Sir Alexander Fleming Primary School 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.

| | | | | | | | |
|---|--|------|--------|------|---|----|---|
| AUDIT OPINION  <p style="text-align: center; font-size: 2em; color: black;">Poor</p> | MANAGEMENT SUMMARY <p>Based on objectives tested (<i>See Appendix 2</i>), there is a sound system of control but there is evidence of non-compliance with some of the 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 3.</p> | | | | | | |
| AREAS OF PARTICULAR CONCERN <p>At the time of the audit the findings determined that there were several areas of particular concern. These areas included the use of £20,000 from the single status savings to balance the 2018-19 delegated budget, The frequent use of the Government Procurement card to purchase of staff gifts, and VAT not being treated in the appropriate manner.</p> | RECOMMENDATION RISK RATING <table border="1" data-bbox="1312 1050 1845 1193"><tr><td style="background-color: red; color: white; text-align: center;">High</td><td style="background-color: yellow; text-align: center;">Medium</td><td style="background-color: lightgreen; text-align: center;">Low*</td></tr><tr><td style="text-align: center;">7</td><td style="text-align: center;">10</td><td style="text-align: center;">5</td></tr></table> <p><i>*See advisory points on Appendix 1</i></p> | High | Medium | Low* | 7 | 10 | 5 |
| High | Medium | Low* | | | | | |
| 7 | 10 | 5 | | | | | |


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

MY OPTIONS YOUNG PEOPLE SERVICES - INCOME

Management Summary

An audit review commenced³ in June 2018, to provide an opinion on the risk, governance and control environment for My Options Young Peoples Services Income Processes 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.

| AUDIT OPINION | MANAGEMENT SUMMARY |
|--|--|
|  <p data-bbox="555 849 797 912">Limited</p> | <p data-bbox="1124 762 1998 906">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 data-bbox="1124 951 1962 1056">Recommendations have been made to improve processes, support the achievement of service objectives and the management of risk. These are set out in section 3.</p> <p data-bbox="1124 1098 2033 1203">This audit was undertaken at the request of the service area following the A2A, ican2, Kreative Kids, Club 17 & Playschemes services for Young People being transferred into My Options.</p> |

³ In accordance with PSIAS Code of Practice for Internal Audit in Local Government

AREAS OF PARTICULAR CONCERN

During the audit it was identified that ican2 registration forms, which contain a high level/amount of sensitive personal data were being stored on the D drive of an officer's lap top. Also at times overnight in a van, kept in a secure compound. This practice was discussed with Information Governance who expressed concerns about the level, amount and methods of storing this information and the associated risks. Based on this conversation the service was contacted immediately and requested that they contact IG to discuss this further

RECOMMENDATION RISK RATING

| | | |
|-------------|---------------|-------------|
| High | Medium | Low* |
| 1 | 15 | 3 |

**See advisory points on Appendix 1*

DIRECT PAYMENTS – CHILDREN & ADULTS

Management Summary

An audit review commenced⁴ in April 2018, to provide an opinion on the risk, governance and control environment for Direct Payments 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.

| AUDIT OPINION | MANAGEMENT SUMMARY |
|--|---|
| <p data-bbox="210 699 315 730">Adults:</p> <div data-bbox="253 746 1070 932" style="background-color: red; color: white; text-align: center; padding: 10px; border-radius: 10px;"><h1 data-bbox="562 794 763 858">POOR</h1></div> <p data-bbox="210 995 349 1027">Children:</p> <div data-bbox="253 1027 1070 1209" style="background-color: yellow; text-align: center; padding: 10px; border-radius: 10px;"><h1 data-bbox="528 1075 797 1139">LIMITED</h1></div> | <p data-bbox="1120 708 1809 740">Based on objectives tested (See Appendix 2):</p> <p data-bbox="1120 798 2033 868">Adults: (RED – POOR) <i>The system of control is weak and there is evidence of non-compliance with the controls that do exist.</i></p> <p data-bbox="1120 925 2002 1069">Children: (AMBER – LIMITED) <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</i></p> <p data-bbox="1120 1114 1953 1219">Recommendations have been made to improve processes, support the achievement of service objectives and the management of risk. These are set out in section 3.</p> |

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

AREAS OF PARTICULAR CONCERN

A lack of financial monitoring on the Adults Direct Payment accounts resulting in:

- Personal contributions are not being checked
- Excessive bank balances are not being reclaimed
- Verification that expenditure is bona fide and being spent as stipulated in the support plan is not being undertaken.

RECOMMENDATION RISK RATING

| | High | Medium | Low* |
|----------|------|--------|------|
| Adults | 4 | 16 | 2 |
| Children | 1 | 12 | 2 |

**See advisory points on Appendix 1*

AGS ACTION PLAN FOR 2017/18 – NOVEMBER 2018 UPDATE

F

| No | Action | Lead Officer | Comments | November 2018 update |
|----|--|--|--|---|
| 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. Being the Change Part 3 to be in place April 2018</p> <p>Service and work force planning sessions took place in early 2018 and this has also been used to feed into the annual audit planning.</p> <p>Consultation on savings for 2018/19 and 2019/20 proposals will continue.</p> | This is now a continuous process with proposals consulted on as and when is appropriate rather than restricting consultation only to the period during which the service and financial planning strategy is being prepared. |
| 2. | Preparations for the revised external audit arrangements. | AD Finance & Human Resources/ AD Governance, Procurement & Commissioning | <p>The PSAA procurement process is complete and T&W external auditors for 18/19 onwards are Grant Thornton. A meeting is to be held with them regarding their expectations.</p> <p>Continuing to work towards an updated final accounts timetable Draft accounts by 31st May (instead of 30th June) and audited accounts by 31st July instead of 30th September.</p> <p>Tender exercise underway for the recruitment of External Auditor to undertake benefit subsidy claim. This is due to be completed by June 2018.</p> | <p>Initial meetings have been held with Grant Thornton who have also attended the Council’s Audit Committee.</p> <p>The draft statement of accounts for 2017/18 was approved before the end May and the audit completed by the end of July 2018 in accordance with the new requirements. A clean audit opinion was received by the Council. As mentioned above, discussions have begun with GT to plan for the 2018/19 audit to ensure a smooth process and the earlier deadlines are still met.</p> <p>Grant Thornton have been appointed to undertake the benefit subsidy claim</p> |
| 3. | Implementation the Workforce Development plan, succession | Managing Director & AD | Organisation Delivery & Development Manager is leading on the implantation of | HR Policies are reviewed and updated on an ongoing basis in line with |

| No | Action | Lead Officer | Comments | November 2018 update |
|----|--|--------------------------------------|---|---|
| | <p>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. 121 framework to be adhered to across the Council</p> | <p>Finance & Human Resources</p> | <p>this Plan to support the organisation to embed workforce development plans, succession planning/single points of failure 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 and service 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 apprenticeships is in place.</p> <p>This year's certificate identified that due to reduced staff there are single points of failure, this is being managed through the sharing of information and issues fed into learning & development plans.</p> <p>Future Leaders have devised a new 121 framework to be used in 18/19.</p> | <p>employment law requirements and in readiness for the introduction of the HR/Payroll System</p> <p>New reporting requirements for Gender Pay Gap and TU duties have been completed.</p> <p>The Council has signed up to a number of pledges including 'Dying to Work', Time to Change (Mental Health) and the Carers Friendly Employer Pledge and has implemented policies to support these pledges.</p> <p>The Council was awarded Disability Confident (Level 2) accreditation and is committed to achieving Disability Leader (Level 3) accreditation. A programme offering Supported Placements is currently being implemented.</p> <p>A new APPD programme has been launched with an increased emphasis on linking the development of employees to the delivery of service plans whilst promoting wellbeing. This is linked to the introduction of a series of "Essential Learning" e-learning modules that all employees are expected to complete including "code of conduct" and "information governance".</p> |

| No | Action | Lead Officer | Comments | November 2018 update |
|----|--|---|--|--|
| | | | | <p>New Management & Leadership programme commenced in April 2018. Focus includes financial management, procurement, good governance/decision making and people management.</p> <p>Guidance for managers and employees on the management of musculoskeletal conditions has been developed. A “take the stairs” campaign has been launched and access to physio therapy services aimed to reduce sickness absence costs is being developed.</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: Adult Social Services/ AD Governance, Procurement & Commissioning | <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>Teams have been assigned targets linked to the cost improvement plan. These targets will be used to determine sufficiency plans for placements over a four year period.</p> <p>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 and a representative of the s151 officer).</p> | <p>Governance remains in place as described for overseeing delivery of planned improvements. Governance is being strengthened to support work on developing further plans for integrating community, primary and social care at a neighbourhood level in line with plans for progressing work on a system wide Sustainability & Transformation Plan (STP) with our health partners.</p> <p>The new Adult & Social care system (Liquidlogic) has now been implemented and will improve processes and governance arrangements.</p> |

| No | Action | Lead Officer | Comments | November 2018 update |
|----|---|---|---|--|
| | | | <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> <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> | |
| 5. | Implement the governance aspects of the improvement plans arising from external reviews | Director: Children's & Adult Services and Director – Customer, Neighbourhood & Well-Being Services | Any governance issues arising from other external reviews during 2017/18 will be monitored by Senior Management. | Governance remains in place as described for overseeing delivery of planned improvements. Governance is being strengthened to support work on developing further plans for integrating community, primary and social care at a neighbourhood level in line with plans for progressing work on a system wide Sustainability & Transformation Plan (STP) with our health partners. |

| No | Action | Lead Officer | Comments | November 2018 update |
|----|--|--------------------------------------|---|--|
| 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>This year's certification process shows that service areas are reviewing their processes to ensure compliance with GDPR.</p> | <p>SMT have supported staff completing GDPR training. To date over 10,000 GDPR training modules have been completed.</p> <p>The GDPR intranet page holds a number of pieces of guidance relating to different areas of GDPR.</p> <p>Audit/IG to ensure that the certification process for 18/19 includes GDPR requirements.</p> |
| 7. | Ensure that the website contains relevant current information and is kept up to date. | AD Customer & Neighbourhood Services | <p>There is a new Intranet being implemented across the council, it has been identified as part of this year's certification process that teams are waiting for this update to avoid duplication. Training has been provided for authors as to how they can update their intranet pages following implementation of the new system.</p> <p>It has also been identified that Service areas are reviewing webpages to ensure they are GDPR compliant</p> | <p>The new intranet is due to be deployed in Feb 2019 and all authors have been trained. A project is in place to review all the pages on the council's website to ensure they remain relevant and fit for purpose and this is being informed by the lean service reviews which are being undertaken by the Digital Access Team.</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>Work on-going on this action.</p> | Ongoing |

Internal Audit Charter – 1st April 2019 – 31st March 2020

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.

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

- 2.3.3 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.
- 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

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

⁵ Qualified, independent assessor or assessment team

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.

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.

⁶ Records include business e-mail and internet records

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) 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