

Meeting	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
Time/Day/Date	6.30 pm on Wednesday, 10 October 2018
Location	Council Chamber, Council Offices, Coalville
Officer to contact	Democratic Services (01530 454512)

All persons present are reminded that the meeting may be recorded and by attending this meeting you are giving your consent to being filmed and your image being used. You are kindly requested to make it known to the Chairman if you intend to film or record this meeting.

The Monitoring Officer would like to remind members that when they are considering whether the following items are exempt information under the relevant paragraph under part 1 of Schedule 12A of the Local Government Act 1972 they must have regard to the public interest test. This means that members must consider, for each item, whether the public interest in maintaining the exemption from disclosure outweighs the public interest in making the item available to the public.

## AGENDA

Item	Pages
<b>1. APOLOGIES FOR ABSENCE</b>	
<b>2. DECLARATION OF INTERESTS</b>	
Under the Code of Conduct members are reminded that in declaring disclosable interests you should make clear the nature of that interest and whether it is pecuniary or non-pecuniary.	
<b>3. MINUTES</b>	
To confirm and sign the minutes of the meeting held on 25 July 2018	<b>3 - 8</b>
<b>4. REPORT TO THOSE CHARGED WITH GOVERNANCE 2017/18</b>	
Report of the Head of Finance	<b>9 - 16</b>
<b>5. ANNUAL GOVERNANCE STATEMENT 2017/18</b>	
Report of the Head of Finance	<b>17 - 68</b>
<b>6. ANNUAL STATEMENT OF ACCOUNTS 2017/18</b>	
Report of the Head of Finance	<b>69 - 72</b>
<b>7. INTERNAL AUDIT PROGRESS REPORT</b>	
Report of the Interim Audit Manager	<b>73 - 92</b>

<b>8. SERVICE UPDATE - S106 INTERNAL AUDIT RECOMMENDATIONS</b>	
Report of the Planning Policy Team Manager	<b>93 - 106</b>
<b>9. TREASURY MANAGEMENT ACTIVITY REPORT</b>	
Report of the Head of Finance	<b>107 - 142</b>
<b>10. CORPORATE RISK UPDATE</b>	
Report of the Strategic Director of Housing and Customer Services	<b>143 - 150</b>
<b>11. STANDARDS AND ETHICS - QUARTER 1 REPORT</b>	
Report of the Head of Legal and Commercial Services	<b>151 - 164</b>
<b>12. COMMITTEE WORK PLAN</b>	
To note the Committee's work plan	<b>165 - 166</b>

Circulation:

Councillor R Ashman  
Councillor J Clarke  
Councillor J Cotterill  
Councillor F Fenning  
Councillor D Harrison (Deputy Chairman)  
Councillor G Hout  
Councillor G Jones  
Councillor S McKendrick  
Councillor V Richichi (Chairman)  
Councillor S Sheahan

MINUTES of a meeting of the AUDIT AND GOVERNANCE COMMITTEE held in the Council Chamber, Council Offices, Coalville on WEDNESDAY, 25 JULY 2018

Present: Councillor V Richichi (Chairman)

Councillors J Clarke, J Cotterill, D Harrison, G Hault, G Jones, S McKendrick and S Sheahan

Officers: Mrs T Bingham, Mrs S Harrison-Bowler, Mrs R Wallace and Miss E Warhurst

#### **1. APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors R Ashman and F R D Fenning.

#### **2. DECLARATION OF INTERESTS**

There were no declarations of interest.

#### **3. MINUTES**

Consideration was given to the minutes of the meeting held on 21 March 2018.

By affirmation of the meeting it was

RESOLVED THAT:

The minutes of the meeting held on 21 March 2018 be approved as a correct record and signed by the Chairman.

#### **4. INTERNAL AUDIT PROGRESS REPORT - JULY 2018**

The Interim Audit Manager presented the report, highlighting the four audits which had been issued since the last meeting and directing Members to the executive summaries at appendix B. Regarding the sundry debtors audit, the audit opinion was a grade three as internal controls required significant improvement. A number of recommendations had been made to address the weaknesses identified which would be followed up by Internal Audit within an agreed timescale. The Interim Audit Manager referred to the revised appendix which identified a number of recommendations that had been implemented with this particular audit since the agenda was originally sent to Members.

Councillor S Sheahan referred to his request at the last meeting for an update on the review of managing the risk of fraud and corruption, and asked for further information as it was not included within the report. The interim Audit Manager reported that the review had been undertaken and had now been passed to the Head of Finance for implementation. The Head of Finance stated that it was currently ongoing and would report back to the Committee in due course.

Councillor S Sheahan raised concerns that there were many deadlines for follow ups that had not been met and questioned if there were any problems. The Interim Audit Manager assured Members that there was nothing to be concerned about with regards to Internal Audit resources and many of the follow ups were in progress with the services but not yet completed.

Councillor D Harrison raised concerns regarding the Section 106 recommendations as the original target date was September 2017 but it was still ongoing. He also questioned whether the shared Internal Audit Service was working successfully as there were some high rated recommendations that were not meeting deadlines. The Head of Legal and Commercial Services explained that it was the responsibility of the service area to

implement the recommendations in the agreed timescale. The Internal Audit service was responsible for reporting any weaknesses and following up recommendations. She suggested that if Members were unhappy with the missed deadlines, they could invite the relevant officers to the meeting to discuss the matter further. The Interim Audit Manager felt that in her opinion, the service was adequately staffed and agreed that some benefits could be gained by inviting relevant officers to the meetings.

Councillor S McKendrick felt that it was difficult for Members to see the progress of some recommendations, especially ones which were completed in between committee meetings. The Interim Audit Manager explained that recommendations could not be reported on if the follow ups were in progress and suggested that interim updates be sent directly to Members via email. All agreed.

Councillor S Sheahan commented that he would be happy to invite officers to the meetings if they needed some encouragement to implement the recommendations. The Interim Audit Manager was happy to take this forward as she felt it would make officers more accountable. The Head of Legal and Commercial Services agreed to invite the relevant director to the next meeting to discuss the Section 106 recommendations.

Councillor D Harrison asked for further information relating to how the shared Internal Audit service operated as he was not confident that there was adequate resources due to the missed deadlines. The Head of Legal and Commercial Services reiterated that it was the responsibility of the service area to implement the recommendations. The Interim Audit Manager explained the role of Internal Audit in following up recommendations after an audit had been undertaken.

Councillor D Harrison raised concerns regarding Exchequer Services as many of the sundry debtors deadlines had been missed. The interim Audit Manager stated that the report had only recently been finalised and referred to the revised appendix circulated to Members which included updates on agreed target dates and the progress of the recommendations, some of which had been implemented.

It was moved by Councillor V Richichi, seconded by Councillor J Clarke and

RESOLVED THAT:

The report be noted.

## **5. INTERNAL AUDIT ANNUAL REPORT 2017/18**

The Interim Audit Manager presented the report to Members. She informed Members that for the 12 months ended on 31 March 2018, she had formed the opinion that the Council's overall internal control arrangements were a grade two. This meant that the internal control arrangements required improvements in some areas. She referred Members to the summary of all reports issued at page 31 of the report.

It was moved by Councillor J Cotterill, seconded by Councillor G Hoult and

RESOLVED THAT:

The report be noted.

## **6. BRIEFING PAPER: CIPFA'S 2018 EDITION OF AUDIT COMMITTEES: PRACTICAL GUIDANCE FOR LOCAL AUTHORITIES AND POLICE**

The Interim Audit Manager presented the report to Members, highlighting the main changes to the guidance previously published in 2013. She drew Members attention to



the self-assessment evaluation tools within the guidance which could assist in supporting an assessment against recommended practice to inform and support the committee. Although completion of the self-assessment was not mandatory, it was seen as good practice and therefore it was recommended that a working group be established to take it forward and report back to the committee in due course.

It was moved by Councillor J Clarke, seconded by Councillor G Hoult and

RESOLVED THAT:

- a) The report be noted.
- b) Councillors D Harrison, G Hoult and S Sheahan be appointed to the Member working Group to work with the Interim Audit Manager and the Head of Legal and Commercial Services to undertake a self-assessment and training needs analysis, and to report back to the Audit and Governance Committee meeting on 5 December 2018.

## **7. TREASURY MANAGEMENT STEWARDSHIP REPORT 2017/18**

The Head of Finance presented the report to Members, drawing attention to the Council's current treasury position, borrowing activity, debt rescheduling activity and investment activity. She also advised Members of the one breach of investment limits (as set out in the annually approved Treasury Management Strategy Statement) which was reported to the committee at its meeting on 21 March 2018.

Councillor J Clarke commented that prudence had been paramount in the past financial year and was pleased with what was being reported.

In response to a question from Councillor D Harrison, the Head of Finance explained that the day to day treasury management actions were taken by a technical accountant who made decisions in accordance with the treasury management strategy statement which was agreed annually by Full Council. She added that there was also an external independent treasury management advisor.

It was moved by Councillor G Jones, seconded by Councillor J Clarke and

RESOLVED THAT:

The report be noted.

## **8. PROGRESS UPDATE IN RESPECT OF IMPROVEMENTS IDENTIFIED THROUGH THE ANNUAL REVIEW OF GOVERNANCE 2016/17**

The Head of Finance presented the report to Members. A total of 17 improvements were identified through the 2016/17 review, 10 of which were now complete, the remaining seven would be carried forward as an ongoing improvement and scheduled for completion in 2018/19. Members were referred to the full detail at appendix one of the report.

It was moved by Councillor V Richichi, seconded by Councillor J Clarke and

RESOLVED THAT:

The report be noted.

## 9. CORPORATE RISK UPDATE

The Head of Finance presented the report on behalf of the Strategic Director of Housing and Customer Services and informed Members that there had been no new risks added to the register, no changes to the risk ratings or movements of risk.

Councillor S Sheahan asked if there was an increase of risk due to the departure of the procurement officer. The Head of Finance did not feel that there was an increase of risk. She informed Members that interviews had taken place for a replacement and she was hoping to have confirmation of the appointment by the end of the week. She also assured Members that an interim was in place and would remain until the new post holder took the position, which would hopefully be by the end of September.

Councillor S McKendrick felt that staff retention should be included as a cause in respect of the risk around 'contracts are not properly procured and managed'. The Head of Finance agreed to pass the suggestion onto the working group.

By affirmation of the meeting it was

RESOLVED THAT:

The quarter 4 risk update be noted.

## 10. DELAY IN ISSUING THE FINAL AND AUDITED ANNUAL STATEMENT OF ACCOUNTS, ANNUAL GOVERNANCE STATEMENT AND NARRATIVE REPORT FOR 2017/18

The Head of Finance presented the report to Members, explaining the need to delay the publication of the final and audited accounts due to a technical error in respect of the Council's capital accounting for the Housing Revenue Account properties. Detailed work was now required to validate the current position and this would take approximately two months.

Councillor S Sheahan questioned what had failed with the process and asked for reasons why the error was not identified sooner. The Head of Finance explained that capital accounting was a complex area and since the introduction of the concept of revaluation accounting by CIPFA in 2007, issues had been discovered by external audit year on year. Due to this the Head of Finance made a commitment to undertake a review of the Council's capital position and a weakness in that area was identified. Councillor S Sheahan commented that it was important to learn from mistakes which was the reason for his questions.

Councillor D Harrison felt that the Head of Finance was doing well to correct the error quickly and gave her his congratulations.

Councillor S McKendrick asked if the Head of Finance was planning to reflect on the process once completed with the intention of learning from the experience. The Head of Finance said that as she recognised capital accounting as a weak area, training was scheduled and she would be monitoring this carefully. The Head of Finance agreed that she would deliver a report to the committee providing detail around the issue and the remedial action undertaken to correct the issue and ensure the organisation was not in this position again.

By affirmation of the meeting it was

RESOLVED THAT:

The report be noted.

**11. STANDARDS AND ETHICS - QUARTER 4 REPORT**

The Head of Legal and Commercial Services presented the report to Members, highlighting the two District Councillor complaints during quarter 4, one of which had been resolved and the other was still ongoing. She also pointed out the reduction in the number of Freedom of Information requests and believed that was due to the amount of information now available publically on the website.

By affirmation of the meeting it was

RESOLVED THAT:

The report be noted.

**12. COMMITTEE WORK PLAN**

RESOLVED THAT:

The report be noted.

The meeting commenced at 6.30 pm

The Chairman closed the meeting at 7.30 pm

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## NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

## AUDIT AND GOVERNANCE COMMITTEE – 10 OCTOBER 2018

Title of report	<b>REPORT TO THOSE CHARGED WITH GOVERNANCE 2017/18</b>
Contacts	<p>Councillor Nick Rushton 01530 412059 <a href="mailto:nicholas.rushton@nwleicestershire.gov.uk">nicholas.rushton@nwleicestershire.gov.uk</a></p> <p>Strategic Director of Housing and Customer Services 01530 454819 <a href="mailto:glyn.jones@nwleicestershire.gov.uk">glyn.jones@nwleicestershire.gov.uk</a></p> <p>Head of Finance and Section 151 Officer 01530 454707 <a href="mailto:tracy.bingham@nwleicestershire.gov.uk">tracy.bingham@nwleicestershire.gov.uk</a></p>
Purpose of report	To consider the External Auditor's Report to Those Charged With Governance for 2017/18.
Reason for Decision	In order to approve the Letter of Representation in relation to the 2017/18 Statement of Accounts and consider findings and recommendations laid out in the External Auditor's report.
Council Priorities	Value for Money
Implications:	
Financial/Staff	No direct implications.
Link to relevant CAT	None
Risk Management	The Council's governance arrangements are a fundamental part of the Authority's management of risk and contribute towards good corporate governance.
Equalities Impact Assessment	Not applicable
Human Rights	None identified.
Transformational Government	No direct implications.
Consultees	None
Background papers	None
Recommendations	<b>THAT THE COMMITTEE:</b>

	<p><b>(A) NOTE THE CONTENTS OF THE EXTERNAL AUDITOR'S REPORT, INCLUDING RECOMMENDATIONS AND MANAGEMENT COMMENTS.</b></p> <p><b>(B) APPROVE THE LETTER OF REPRESENTATION ATTACHED AT APPENDIX A.</b></p>
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## **1.0 BACKGROUND**

- 1.1 The audit of accounts commenced on 25 June 2018 following publication of the council's draft Statement of Accounts on 31 May 2018. At the time of writing this covering report, the audit is in its final stages.
- 1.2 The Council's external auditor (KPMG LLP) have under taken audit procedures on the financial statement. KPMG LLP anticipate issuing unqualified opinions on the Financial Statements and Value for Money.
- 1.3 A separate report by KPMG LLP on the findings has been provided to this meeting. The report covers the issues arising from the annual audit of accounts and any matters which are formally required to be reported under the Code of Audit Practice and International Standard of Auditing (UK and Ireland) (IAS 260) "Communication of audit matters with those charged with governance".
- 1.4 Audit recommendations will be set out in the Appendix to KPMG LLP's report along with formal Management Responses from the Head of Finance or appropriate officer. The report also considers the progress of audit recommendations relating to the 2016/17 financial year.
- 1.5 The Letter of Representation is attached in Appendix A to this report. This letter, subject to approval by the committee, will be signed by the Chair of the Committee and Section 151 Officer and confirms that the Council has provided all relevant information to the auditors.

**Finance**

Please ask for: Tracy Bingham

Telephone: 01530 454707

Email: [tracy.bingham@nwleicestershire.gov.uk](mailto:tracy.bingham@nwleicestershire.gov.uk)

Date: 10 October 2018

Mr T Crawley  
KPMG LLP  
St Nicholas House  
31 Park Row  
NOTTINGHAM  
NG1 6FQ

10 October 2018

Dear Mr Crawley

This representation letter is provided in connection with your audit of the financial statements of North West Leicestershire District Council ("the Authority"), for the year ended 31 March 2018 for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the financial position of the Authority as at 31 March 2018 and of the Authority's expenditure and income for the year then ended; and
- ii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

These financial statements comprise the Authority Movement in Reserves Statement, the Authority Comprehensive Income and Expenditure Statement, the Authority Balance Sheet, the Authority Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the Collection Fund and the related notes (including the Expenditure and Funding Analysis).

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

**Financial statements**

1. The Authority has fulfilled its responsibilities, as set out in the Accounts and Audit Regulations 2015, for the preparation of financial statements that:
  - i. give a true and fair view of the financial position of the Authority as at 31 March 2018 and of the Authority's expenditure and income for the year then ended;
  - ii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.
4. In respect of the restatement of the Council's Balance Sheet, Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, the HRA Notes and other relevant Notes made to correct a material misstatement in the prior period financial statements relating to the Council Dwellings valuation, the Authority confirms that the restatement is appropriate.

### **Information provided**

5. The Authority has provided you with:
  - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
  - additional information that you have requested from the Authority for the purpose of the audit; and
  - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.

6. All transactions have been recorded in the accounting records and are reflected in the financial statements.

7. The Authority confirms the following:

The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

8. The Authority has disclosed to you all information in relation to:
  - a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:
    - management;
    - employees who have significant roles in internal control; or
    - others where the fraud could have a material effect on the financial statements; and
  - b) allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.



9. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
10. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
11. The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as we understand them as defined in IAS 24 and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

12. The Authority confirms that:
  - a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Authority's ability to continue as a going concern as required to provide a true and fair view.
  - b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority to continue as a going concern.
13. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (Revised) Employee Benefits.

The Authority further confirms that:

- a) all significant retirement benefits, including any arrangements that are:
  - statutory, contractual or implicit in the employer's actions;
  - arise in the UK and the Republic of Ireland or overseas;
  - funded or unfunded; and
  - approved or unapproved,have been identified and properly accounted for; and
- b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Audit and Governance Committee on 10 October 2018.

Yours sincerely,

Chair of the Audit and Governance Committee

Head of Finance and S151 Officer

## **Appendix to the Authority Representation Letter of North West Leicestershire District Council: Definitions**

### **Financial Statements**

A complete set of financial statements comprises:

- A Comprehensive Income and Expenditure Statement for the period;
- A Balance Sheet as at the end of the period;
- A Movement in Reserves Statement for the period;
- A Cash Flow Statement for the period; and
- Notes, comprising a summary of significant accounting policies and other explanatory information and the Expenditure and Funding Analysis.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

A housing authority must present:

- a HRA Income and Expenditure Statement; and
- a Movement on the Housing Revenue Account Statement.

A billing authority must present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund.

A pension fund administering authority must prepare Pension Fund accounts in accordance with Chapter 6.5 of the Code of Practice.

An entity may use titles for the statements other than those used in IAS 1. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'.

### **Material Matters**

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

“Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”

### **Fraud**

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

## **Error**

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue; and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

## **Management**

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

## **Related Party and Related Party Transaction**

### **Related party:**

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity").

- a) A person or a close member of that person's family is related to a reporting entity if that person:
  - i. has control or joint control over the reporting entity;
  - ii. has significant influence over the reporting entity; or
  - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions applies:
  - i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - iii. Both entities are joint ventures of the same third party.
  - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
  - vi. The entity is controlled, or jointly controlled by a person identified in (a).
  - vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - viii. The entity or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Key management personnel in a local authority context are all chief officers (or equivalent), elected members, the chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

- a) a government that has control, joint control or significant influence over the reporting entity; and
- b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

**Related party transaction:**

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

**NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL**

**AUDIT AND GOVERNANCE COMMITTEE – 10 OCTOBER 2018**

Title of report	<b>ANNUAL GOVERNANCE STATEMENT 2017/18</b>
Contacts	<p>Councillor Nick Rushton 01530 412059 <a href="mailto:nicholas.rushton@nwleicestershire.gov.uk">nicholas.rushton@nwleicestershire.gov.uk</a></p> <p>Strategic Director of Housing and Customer Services 01530 454819 <a href="mailto:glyn.jones@nwleicestershire.gov.uk">glyn.jones@nwleicestershire.gov.uk</a></p> <p>Head of Finance and Section 151 Officer 01530 454707 <a href="mailto:tracy.bingham@nwleicestershire.gov.uk">tracy.bingham@nwleicestershire.gov.uk</a></p>
Purpose of report	To present the Annual Governance Statement 2017/18 for consideration and approval.
Reason for Decision	To ensure that members of the Committee have considered the Council's governance during 2017/18 and agreed the report.
Council Priorities	Value For Money
Implications:	
Financial/Staff	Not Applicable
Link to relevant CAT	Could impact on all CATs.
Risk Management	Failure to produce an accurate and comprehensive Annual Governance Statement could result in adverse comment from the External Auditor and failure to comply with current guidance.
Equalities Impact Screening	Not Applicable
Human Rights	Not Applicable
Transformational Government	Not Applicable
Consultees	None
Background papers	<p>Annual Governance Statement 2017/18 (unaudited) – <a href="https://www.nwleics.gov.uk/files/documents/annual_governance_statement_2017_18/2017%2018%20Annual%20Governance%20Statement.pdf">https://www.nwleics.gov.uk/files/documents/annual_governance_statement_2017_18/2017%2018%20Annual%20Governance%20Statement.pdf</a></p>

Recommendations	<b>THAT COMMITTEE MEMBERS APPROVE THE ANNUAL GOVERNANCE STATEMENT (AS ATTACHED TO THIS REPORT AT APPENDIX A)</b>
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## **1.0 BACKGROUND**

- 1.1 An Annual Governance Statement is a requisite part of the annual review of corporate governance. Good practice dictates that the Annual Governance Statement is published alongside the statement of accounts, but is considered in its own right.
- 1.2 The Chartered Institute of Public Finance & Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) issue joint annual guidance on corporate governance, which encourages Local Authorities in going beyond consideration of the internal control environment to look at wider arrangements for supporting sound corporate governance.
- 1.3 The CIPFA/SOLACE guidance outlines seven core principles for good governance, with a number of supporting principles. These seven principles are:
- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
  - B. Ensuring openness and comprehensive stakeholder engagement
  - C. Defining outcomes in terms of sustainable economic, social, and environmental benefits
  - D. Determining the interventions necessary to optimise the
  - E. Developing the entity's capacity, including the capability of its leadership and the individuals within it achievement of the intended outcomes
  - F. Managing risks and performance through robust internal control and strong public financial management
  - G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability
- 1.4 The Council's duty in respect of the Annual Governance Statement is to undertake an annual review of its governance arrangements, which includes the effectiveness of its system of internal control.

## **2.0 REVIEW OF EFFECTIVENESS**

- 2.1 To undertake the annual review, a line by line assessment of the Council's governance framework against the CIPFA/SOLACE guidance has been undertaken to arrive at an assessment score of either:
- Good – Good governance exists and there are no improvements required
  - Fair – Satisfactory governance exists but improvements are required to meet good governance
  - Poor – Significant issues with governance exists which need addressing
- 2.2 The review is documented with details of evidence provided as part of the Annual Governance Statement.

### **3.0 THE ANNUAL GOVERNANCE STATEMENT**

- 3.1 The Annual Governance Statement has been subject to audit and requires final approval from this Committee.
- 3.2 The Council's governance framework and how we have complied with the CIPFA/SOLACE framework is summarised in Section 3 of the statement and was in place throughout 2017/18.
- 3.3 Section 4 summarises the review the effectiveness of the Council's governance, including details of any significant issues or areas for improvement which have arisen from the review of effectiveness, and proposals for addressing them.
- 3.4 There were no significant issues identified for 2017/18, however 6 improvements identified through the Annual Governance Statement review in 2016/17 have been carried forward for completion and there have been 8 new improvements identified. One of these improvements (the requirement to undertake a review of all of the council's hosted systems) has been included following the external audit and was not included in the draft published Annual Governance Statement. The total 14 improvements are summarised in Table 2 of the Annual Governance Statement (pages 13 – 14).
- 3.5 Evidence gathered throughout the review is detailed as an appendix to the statement. As detailed in 3.4, additional information relating to a new improvement has been updated in Principle F "Managing risks and performance through robust internal control and strong public management" (page 41).
- 3.6 Progress against improvement areas will be reported to the Audit and Governance Committee at regular intervals and the AGS of future years will report on the progress/completion of improvements areas or significant issues from the prior period.

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# Annual Governance Statement 2017/18

## 1. Background and Scope of Responsibility

North West Leicestershire District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging the overall responsibility the Council is responsible for putting into place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

The Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' 2016. A copy of the Code is available on our website at [www.nwleics.gov.uk/corporate\\_policies](http://www.nwleics.gov.uk/corporate_policies) or can be obtained from the Council Offices in Coalville upon request.

This Statement explains how the Council has complied with the code and also meets the requirements of the Accounts and Audit Regulations 2015 in relation to the preparation and approval of an Annual Governance Statement. The Council's arrangements comply with each of the principles in the CIPFA/SOLACE Framework - Delivering Good Governance in Local Government.

## 2. The Purpose of the Governance Framework

The governance framework comprises the systems, processes, culture and values, by which the authority is controlled and directs its activities and through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The Council's system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place for the year ended 31 March 2018, and up to the date of the approval of the Statement of Accounts.

## 3. The Governance Framework Our vision, priorities and values

The Council's vision, priorities and values are set out in the Council Delivery Plan, which was adopted by Council on 21 March 2017.

The council's vision is that 'North West Leicestershire will be a place where people and businesses feel they belong and are proud to call home'.

The Council's priorities reflect the overall vision and are detailed in a series of critical activities which are incorporated into annual departmental team business plans and the Medium Term Financial Strategy.

Our priorities are:

- Value for Money
- Homes and communities
- Businesses and jobs
- Building confidence in Coalville
- Green Footprints

We have developed our Best Employee Experience (BEE) programme to include five core values. These values are integrated into our performance staff development and appraisal programmes:

- Spend our money wisely – our staff deliver value for money in everything they do
- Support what is possible – our staff identify, agree and provide the best possible outcomes for all customers
- Be fair and proud – our staff show pride in their work and take individual responsibility for delivering what is agreed
- Listen carefully – our staff listen and respond to the needs of customers and colleagues – both internally and externally
- Deliver agreed quality – our staff deliver within agreed timescales and to the expected quality.

### **The key elements of our governance framework**

We operate a cabinet style government with separation of executive and scrutiny functions. All Cabinet members have been allocated a specific portfolio and are responsible for driving forward the Council's key strategic aims.

The Council has a Constitution which sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that decisions are efficient, transparent, and accountable to local people.

We have various layers of management within the organisation and our management teams each play an important role in governance framework.

Our corporate leadership team (CLT), comprises of the Head of Paid Service, Directors and all Heads of Service. The group meet fortnightly and are programmed as a series of themed sessions to focus individually on either business as usual, strategic issues, projects and programmes and the health of the organisation.

We also have a series of Directorate Management Team (DMT) meetings (held with Directors and Heads of Service to consider strategic and operational matters

relevant to specific directorates), Extended Leadership Team (ELT) meetings which include all Team Managers across the Council and the Chief Executive who help to shape the strategic direction of the Council and feed in to CLT and Senior Management Team (SMT) meetings where Heads of Service meet with their respective Team Managers to consider specific service matters.

### **Role of the Council**

The extent of the role of full Council in reviewing and monitoring effectiveness of internal control is set out in Article 4 of the Council's constitution. Article 4 provides that the Council is responsible for setting the policy and budgetary framework. The 'Call-in' provisions found within the Constitution provide members of the Policy Development Group with a mechanism to scrutinise decisions of Cabinet where they feel that they have been taken outside the budget and policy framework.

The Council's statutory officers who consist of the Head of Paid Service (the Chief Executive), the Monitoring Officer (Head of Legal and Commercial Services) and Section 151 Officer (Head of Finance) fulfil the statutory duties associated with their roles, including ensuring that the Council's activities are in accordance with the law and

legislative requirements, and that financial budgets are set appropriately and are monitored regularly.

The Council's financial management arrangements conform to the governance requirements as set out in the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2016). Although there was not a Section 151 Officer in post for the majority of the 2017/18 year, the role was fulfilled during the period by the Section 151 Officer acting up. Subsequently the Section 151 Officer fulfilled this role following appointment in February 2018.

The Constitution of the Council is subject to a continuous review process which sets out matters reserved to Council, Cabinet and Committees for decision, all other decisions are delegated to officers. The Constitution has undergone a revision this year and the new version, which was actively reviewed by Members, was approved by Council in February 2018.

The Council formally reviews its Financial Regulations on a regular basis. On-going updates are implemented as part of the regular reviews of the Constitution.

### **Role of Cabinet**

The Cabinet has responsibility for all executive functions and for making recommendations to Council within the Budget and Policy Framework. Its remit is clearly set out in the Constitution and it plays a major role in reviewing key aspects of overall service delivery, including monitoring its effectiveness and related governance issues.

### **Role of Audit and Governance Committee**

The Audit and Governance Committee was responsible for ensuring that the Council's systems for internal control are sound by reviewing control mechanisms, and guidelines (both internal and external) and ensuring continued probity and good governance of the Council's operations. The Committee meets the external auditor to discuss findings in the Annual Audit Management Letter and reports.

### **Role of Policy and Development Group**

The Policy Development Group carries out the Council's Scrutiny function. The Policy and Development Group can "call in" a decision which has been made by the Cabinet but not yet implemented, to enable them to consider whether the decision is appropriate.

The Constitution contains a section on the "Principles of Decision Making", and non-compliance with one or more of those principles is a ground for "call-in" by the Policy Development Group.

### **Risk Management**

The overall objective of the Council's risk management strategy is the identification, analysis, management and financial control of those risks which can most impact on the Council's ability to pursue its approved delivery plan".

The Risk Management Strategy was updated and approved by Cabinet on 29 July 2014 and all reports to Council, Cabinet and Committees have a risk management section. A Corporate Risk Register has been developed and approved at both Corporate Leadership Team and by Elected Members. The Corporate Risk Register is accepted as a live document constantly under review for progress on managed risks and new risks that could impact on the Council. A risk review cycle has been developed that will allow closer links with the service planning process.

The Corporate Risk Group is represented by each of the Council's services. The CRG will identify new risks and review the corporate risk register. Review of corporate risks is part of the terms of reference of the Audit

and Governance Committee. Risks are reported to Cabinet as part of the quarterly Performance Management Report.

### **Role of Internal Audit**

The Internal Audit service is responsible for monitoring the quality and effectiveness of systems of internal control. A risk model is used to formulate an annual work plan, progress against which is reviewed each quarter by the Audit and Governance Committee. The reporting process for Internal Audit requires a report of each audit to be submitted to the relevant Director and Head of Service as well as the Section 151 Officer and Monitoring Officer. The reports include an independent opinion on the adequacy of the applicable internal controls, audit findings and recommendations for improvements with an agreed timescale for implementation. Progress against recommendations is followed up by Internal Audit and reported to Audit and Governance Committee on a quarterly basis throughout the year.

The Internal Audit Report 2017/18 was considered by the Audit and Governance Committee on 25 July 2018.

The report confirmed that the Chief Audit Executive (Interim Audit Manager) formed the opinion that the Council's overall internal control arrangements are a Grade 2. In line with our Internal Audit opinion grade definitions, this means that the internal control arrangements require improvement in some areas.

The opinion is based on the following:

- All internal audit work undertaken during the year.
- Assurance provided by the auditors of the Leicestershire Revenues and Benefits Partnership.
- Follow up audit work in respect of audit recommendations.
- The Interim Audit Manager's knowledge of the Council's governance and risk management structure and processes.

During the year, 11 in-house internal audits were carried out.

The team issued one grade 3 audit report during 2017/18 in relation to the review of Sundry Debtors. This means that the internal controls require significant improvement. (for information, the Council's Internal Audit grading runs from 1 to 4, with 1 representing adequate controls and 4 representing inadequate controls in all areas).

The main areas identified for improvement are:

- Lack of formal operational procedure notes
- Weaknesses with regards to evidencing/recording of action taken on debt recovery
- Weaknesses with regards to issue and follow-up of aged debtor reports

- Lack of focussed debt recovery via a formal action plan
- Inaccuracies with regards to Sundry debt write-offs reported to Cabinet
- Monitoring and reporting of income collection relating to prior year debts

These issues have been acknowledged in our Annual Governance Statement and included as an area for improvement that will be monitored during 2018/19.

### **The Role of External Audit**

KPMG LLP has been appointed by the Public Sector Audit Appointments (PSAA) as the Council's external auditor for 2017/18. The auditor's statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014, the National Audit Office's Code of Audit Practice and the PSAA Statement of Responsibilities.

External audit provide an opinion on the Council's financial statements and conclude on the arrangements in place for securing economy, efficiency and effectiveness in the Council's use of resources (value for money conclusion).



The latest Annual Letter from the Council's appointed External Auditors, KPMG LLP for the financial year 2016/17 issued unqualified opinions on the financial statements and Value for Money Arrangements of the Council. These confirm that for 2016/17 financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year then ended and that the Council had proper arrangements for securing economy, efficiency and effectiveness.

In the audit of the 2017/18 accounts it was identified that upon implementation of a new cloud-based payroll system, mechanisms for obtaining a service auditors report were not put in place by the Council. To gain assurance that this matter has not caused an issue in the 2017/18 year, the Council has closely scrutinised and reconciled its payroll checking processes. Moving forward, a service auditors report will be received on an annual basis from the payroll software provider.

An additional improvement has been recognised relating to the CIPFA/SOLACE principle: Managing risks and performance through robust internal control and strong public financial management. Progress against this improvement will be monitored throughout the forthcoming year.

### **How we comply with the CIPFA/SOLACE Framework**

The following sections list the key elements of the systems and processes that comprise the council's governance framework with a commentary setting out how the arrangements comply with each of the principles that are laid out in the CIPFA/SOLACE Framework - Delivering Good Governance in Local Government.

#### **Principle A – Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

Arrangements have been put in place to ensure probity when dealing with different stakeholders and these are frequently updated. The Council has a Members' Code of Conduct, Planning Code of Conduct, Licensing Code of Conduct and Citizens' Rights which are all set out in the Constitution. These are regularly reviewed to take account of the latest legislation and guidance, the last review of these codes being completed in February 2018 as part of the annual update of the Council's Constitution.

The Constitution contains a section on the "Principles of Decision Making", and non-compliance is a ground for "call-in" by the Policy Development Group.

During 2017/18 the Audit and Governance Committee had a pro-active work programme and each meeting of the Committee received a report from the Monitoring Officer on current issues. A quarterly performance monitoring report including ethical indicators was also produced.

The Council has robust arrangements for monitoring compliance with the Member Code of Conduct (including gifts and hospitality). The Officer Register of Gifts and Hospitality received its six monthly checks by the Monitoring Officer whilst checking of the Member Register is also undertaken.

The Head of Paid Service, Section 151 Officer and Monitoring Officer meet regularly as a Statutory Officers Group. Their work includes monitoring compliance with standards of conduct across the Council, including both officers and members.

The council's Whistle Blowing Policy includes members, contractors, suppliers and service providers and people working in partnership with the Council (e.g. volunteers. All reports received under the policy are investigated thoroughly.

### **Ensuring effective arrangements are in place for the discharge of the monitoring officer function**

The “Monitoring Officer” function is carried out by the Head of Legal and Commercial Services who reports to the Chief Executive. The Legal Team Manager who has responsibility for legal matters and is also the “Deputy Monitoring Officer”, reports to the Head of Legal and Support Services.

### **Ensuring effective arrangements are in place for the discharge of the Head of Paid Service function**

The “Head of Paid Service” role is undertaken by the Council’s Chief Executive. The Head of Human Resources and Organisational Development, responsible for all HR matters, reports to the Chief Executive.

### **Undertaking the core functions of an Audit Committee, as identified in CIPFA’s Audit Committees – Practical Guidance for Local Authorities**

The Council has an established Audit and Governance Committee whose remit and functions are based on the guidance set out in the CIPFA/SOLACE 'External Audit in Delivering Good Governance in Local Government: Framework', 2016, which identifies best practice in relation to roles and responsibilities. The Committee meets

quarterly and receives regular reports from both the Section 151 Officer and the Audit Manager. Arrangements are in place for the Audit Manager to report independently to the Audit Committee should he/she feel it appropriate to do so.

### **Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful**

The Council ensures compliance with established policies, procedures, laws and regulations through various channels. Two of the council’s statutory officers, the Section 151 Officer and the Monitoring Officer, have responsibility for ensuring that the Council does not act in an ultra vires manner, supported by the Head of Human Resources and Organisational Development, who facilitates the management and mitigation of risk, and the Audit Manager who provides assurance on matters of internal financial control.

There is an in-house, Lexcel accredited legal team. Lexcel is the Law Society’s legal practice quality mark for excellence in legal practice management and excellence in client care. The Legal Team work closely with all teams across the Council providing risk based advice.

The Human Resources function uses our Best Employee Experience (BEE) programme to ensure that officers are equipped to discharge their duties in accordance with the requirements of the Council.

### **Whistle-blowing and for receiving and investigating complaints from the public**

The Council has in place appropriate whistle blowing policies and procedures which are regularly reviewed and updated where required. A revised Whistle Blowing policy was approved by Audit and Governance Committee on 25 March 2015. Staff are aware of the Whistle Blowing policy through the council’s intranet and as an integral part of the induction process for new starters. There is also a well-established and responsive complaints procedure to deal with both informal and formal complaints from customers and residents. Regular information relating to performance in respect of customer feedback is presented to Heads of Service and the Corporate Leadership Team.

## **Principle B. Ensuring openness and comprehensive stakeholder engagement**

Our range of communications policies sets out who we communicate with, and why and how we do it. The Council uses various means to communicate key messages to members of the public, including press releases, website content, social media and where relevant direct communication. Internally, we communicate with staff via team meetings, the intranet, blogs and Chief Executive's road shows for staff.

The Council has adopted a consultation framework which involves staff at all levels and a formal, regular mechanism of meetings with representatives and officials from the recognised Trade Unions is in place.

The council's scrutiny arrangements are designed to ensure that key elements were externally scrutinised and involve all sections of the community and stakeholders as necessary.

## **Principle C – Defining outcomes in terms of sustainable economic, social and environmental benefits**

### **Incorporating good governance arrangements in respect of partnerships and other group working and reflecting these in the authority's overall governance arrangements**

The Council participates in a range of joint working arrangements with other bodies. For those that deliver services to our customers there are service level agreements or contractual arrangements in place to ensure delivery and protect reputational risk. Should there be corporate risks based on partnership arrangements these will be detailed within the corporate risk register. The Council is particularly mindful of the financial and reputational risks that can arise through entering into joint working and collaborative arrangements, including the potential for a detrimental reputation impact on the Council should the partnership fail.

## **Enhancing the accountability for service delivery and effectiveness of other public service providers**

The Council is a partner in the Leicestershire, Leicester and Rutland Resilience Partnership (LRIP). All Councils at Unitary, District and Borough levels are members of the Partnership to bring together emergency management resources to prepare for and respond to civil emergencies within the Leicester, Leicestershire and Rutland area. The Head of Human Resources and Organisational Development is the council's representative on the LRIP Management Board.

### **Principle D – Determining the interventions necessary to optimise the achievement of the intended outcome**

The Council Delivery Plan and our Medium Term Financial Strategy detail how we have planned all our resources, both financial and staffing to deliver against our priorities.

The council's performance management arrangements include the business planning process which reflects all of the council's aims and objectives and aims to better align activities, improvements and resources. A set of clear and consistent Team Business Plans were developed for 2017/18.



All plans were and continue to be monitored throughout the year by management and portfolio holder cabinet members on a monthly basis and reported to cabinet publicly on a quarterly basis using a traffic light system to facilitate robust member challenge. After the month end, enabling managers to respond to issues in a timely manner, profiled financial monitoring reports which also project the outturn are reviewed by all budget holders and portfolio holder cabinet members on a monthly basis. Similarly, financial performance is reported to cabinet on a quarterly basis.

### **Principle E – Developing the entity’s capacity including the capability of its leadership and the individuals within it**

☞ The council’s “BEE Valued” programme includes rigorous recruitment and selection, performance management and staff development processes.

The Council fully supports the requirements to ensure that both members and senior officers have the necessary skills sets to fulfil their strategic role in the organisation. A comprehensive induction programme exists for both members and officers which has been developed to deal with all relevant core issues. The Council is committed to creating

an environment where elected members’ skills can develop and thrive with regular courses being delivered.

An annual development review is undertaken for all officers, which includes the identification of training and development needs, which are then considered and built into a service level and corporate training programme where appropriate.

The 2017/18 year marked a new beginning for North West Leicestershire District Council with the appointment of a new Chief Executive and Acting Section 151 Officer. During the year, the senior management structure of the Council was reviewed and a revised structure was approved by Council in January and implemented in February 2018. Permanent arrangements for the Section 151 Officer role were put in place through this restructure.

We recognise the critical role that a motivated, skilled and capable workforce plays in every aspect of service delivery. Our People Plan (which is currently in development) will help us achieve the corporate priorities outlined in our Council Delivery Plan. This plan and the associated Workforce Development Plan (WDP), will form an integral part of our performance

management framework, providing the link between valuing and developing people, with improving and developing services and enabling effective dynamic leadership.

### **Principle F – Managing risks and performance through robust internal control and strong public management**

The Policy Development Group carries out the council’s scrutiny function. The Council maintains an Executive Decision Notice of key decisions to maximise transparency and consultation. The writing of formal reports follows a prescribed procedure which requires the completion of a number of procedural requirements for content including Statutory Officer checks for legality, budgetary compliance, rationale and risk. Reasons for all decisions must be given and these are recorded in the minutes.

The Member and Officer Codes of Conduct and associated procedures act as a safeguard against conflicts of interest or bias.

The Audit and Governance Committee undertake the functions of an audit committee as identified by CIPFA guidance. It receives regular reports and presentations from the External Auditor and is independent of cabinet.

The Council has a customer feedback complaints system and this information is used to improve service delivery and customer satisfaction.

The Council has a Risk Management Policy which was updated and approved at Cabinet on 1 May 2018. The strategic risk register is reviewed and updated and scrutinised by the Audit and Governance Committee on a quarterly basis. The risks identified have been linked to Council priorities/strategic aims and lead officers have been identified to manage each risk. Risk Management also forms a key element of the Council's Delivery Plan and the Service Planning process and risk management is an integral part of the council's performance management arrangements. During the 2017/18 year, Team Managers and members of the Audit and Governance Committee separately attended risk management training sessions to ensure that those responsible for risk management have the appropriate knowledge to identify and manage risk.

As part of the council's Corporate Project Management Framework, all major projects have their own risk log. All reports going to members include the risk implications

associated with the decision members are being asked to make.

The Council is committed to the effective use of IT and has an ICT strategy and IT Security Policy which were reviewed during 2015/16.

The Council's 2017/18 Treasury Management Strategy was approved by Council in February 2017, and risks are fully evaluated as part of this strategy.

### **Principle G – Implementing good practices in transparency, reporting and audit to deliver effective accountability**

#### **Ensuring the Authority's Financial Management Arrangements Conform With the Governance Requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2016)**

Until the approval and subsequent implementation of the senior management restructure in February 2018, the arrangements for the Chief Finance Officer role were fulfilled by the Financial Planning Team Manager and Deputy Section 151 Officer who took the role of Acting Section 151 Officer. During this time the council's financial management arrangements continued to conform with governance

requirements as set out in the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2016).

From February 2018, formal arrangements were put in place for the Section 151 Officer with a permanent employee appointed to this role. Adherence to the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2016) has therefore continued.

#### **Ensuring the authority's assurance arrangements addresses the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010)**

The council's internal reporting arrangements are designed to ensure the independence of the internal audit function. Appropriate resources are made available to provide an independent, objective assurance and consulting activity designed to add value and improve the council's operations. It brings a systemic disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes. The Interim Audit Manager reports directly to the council's Audit and Governance Committee on all matters appertaining to audit outcomes.

The Audit Manager and the Section 151 Officer meet on a monthly basis to discuss and review governance and risk matters.

## 4. Effectiveness

### Review of Effectiveness

The Council has responsibility for conducting at least annually, a review of its governance framework including the system of internal control.

The review is informed by the Internal Audit Annual Report, the work of the Audit and Governance Committee, the comments of external auditors and other review agencies and inspectorates, and the work of the Corporate Leadership Team who have responsibility for the development and maintenance of the internal control environment.

The review considers evidence identified to support where the Council meets the CIPFA/SOLACE guidance and sets this out in the Assurance Review and Evidence document. Governance areas are given an assessment scoring as follows:

- Good – Good governance exists and there are no improvements required
- Fair – Satisfactory governance exists but improvements are required to meet good governance
- Poor – Significant issues with governance exist which needs addressing.

Areas identified as fair or poor are reported within the annual governance statement and remedial actions are also outlined. The Audit and Governance Committee review on a quarterly basis the progress of remedial actions.

### 2016/17

The assurance review for 2016/17 identified no significant issues. However, 17 improvements were identified which are set out in the table below. Of the outstanding improvements, those that remain outstanding will now be captured and monitored as part of the improvements for 2017/18. Full details of the review can be found in the Assurance and Evidence document for 2016/17 which was published alongside the Annual Governance Statement.

**Table 1 – Areas of improvement identified during 2016/17**

Improvement Action	Status – May 2018
Evidence used for assessment of governance to be documented and made available to users of financial statements	<b>Complete.</b> Evidence and Assurance table included within Annual Governance Statement and made publicly available following Audit and Governance Committee approval on 27 September 2017.
Review of Strategic and Financial Planning timetables to be undertaken to allow for better alignment for 2018/19 planning	<b>Complete.</b> Timetable for developing the 2018/19 budget, Council delivery plan and team business plans reviewed and aligned.
Formal S151 Officer arrangements	<b>Complete.</b> Formal arrangements introduced February 2018.
Medium Term Financial Strategy to be extended over a longer planning timeframe	<b>Complete.</b> 2018-2023 Medium Term Financial Strategy approved by Cabinet 6 February 2018. Strategy timeframe reduced from 10 to 5 years as a result of Cabinet and portfolio holder feedback and the likely uncertainty over a 10 year period.
Implement longer term revenue planning from 2018/19 budget planning	<b>Complete.</b> 5 year revenue position presented to Council as part of the approval of the 2018/19 budget on Council 27 February 2018.
Development of performance management system to be more intuitive and less administratively burdensome	<b>Carried forward as an ongoing improvement and scheduled for completion in 2018/19.</b> The Council is currently implementing a project to introduce the inphase corporate performance management tool. This will be rolled out with pilot service areas in 2018/19 with a view to having full implementation of phase 1 by the end of the financial year. This will reduce the burden of reporting performance data and provide relevant timely information to managers and members. Phases 2 and 3 of the inphase project will integrate the system with risk management, the new finance system and management of absence information.
Training for Audit and Governance Committee Members	<b>Complete.</b> Risk Management training session to be held with Committee members by end of April 2018. Public financial management session to be arranged post annual Council to take account of any committee membership changes.
Review opportunities for peer review	<b>Complete.</b> Local Government Association peer review for Planning undertaken with recommendations arising from review to be presented to members at full Council on 20 March 2018.
Undertake review of Equality Policy	<b>Carried forward as an ongoing improvement and scheduled for completion in 2018/19.</b> Revised timetable for development of policy will now see approval early 2018/19.

Improvement Action	Status – May 2018
Audit and Governance Review of risks twice per year	<b>Complete.</b> Risk monitoring now included on forward plan as standard agenda item.
Review approach to consultation	<b>Carried forward as an ongoing improvement and scheduled for completion in 2018/19.</b> Approach to engagement and consultation to be considered as part of the review of the customer services, business improvement and communications teams and consideration of the functions within community services.
Communications Strategy	<b>Carried forward as an ongoing improvement and scheduled for completion in 2018/19.</b> Improvement to be included in Team Business Plan for 2018/19.
Consider need for Partnership Framework	<b>Carried forward as an ongoing improvement and scheduled for completion in 2018/19.</b> As detailed below, the need for a partnership working framework will be considered as part of the development of the commercial strategy.
Develop Commercial and Sustainability Strategy ∞	<b>Carried forward as an ongoing improvement and scheduled for completion in 2018/19.</b> The Council is at the beginning of a piece of work to develop a commercial strategy to support the Journey to Self Sufficiency Programme. Phase 1 of the management restructure created the post of the head of legal and commercial services and this will be a key piece of work for the post holder. The need for a partnership working framework will be considered as part of that work.
Update people plan	<b>Carried forward as an ongoing improvement and scheduled for completion in 2018/19.</b> People plan currently under development. Due for approval and implementation in 2018/19.
Risk Management and Strategy and Policy Updates	<b>Complete.</b> Risk Strategy and Policy merged into one policy document. Revised policy approved by Cabinet 1 May 2018.
New financial model for achieving balance between finance and budget holders	<b>Complete.</b> Action included in team business plan for the Finance service for 2018/19.

## 2017/18

No significant governance issues were identified in the annual assurance review for 2017/18. There were seven improvements carried forward from 2016/17 and condensed into six new improvement actions. A further eight improvements identified during 2017/18. There are therefore a total of 14 improvements for monitoring in 2017/18. (Please note that the table below repeats improvement actions where they are relevant to more than once CIPFA/SOLACE principle).

Full details of the review can be found in the Assurance and Evidence document for 2017/18 which is published alongside this Annual Governance Statement.

The table below is an extract from the Assurance Review and Evidence document and includes details of the improvement areas identified. Please note that as improvements can cut across principles, some improvements are listed more than once.

**Table 2 – Areas of improvement identified during 2016/17**

CIPFA/SOLACE Principle	Improvement	Owner
<b>Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law</b>	Review of Equality policy.	Head of Communities
<b>Principle B: Ensuring openness and comprehensive stakeholder engagement</b>	Approach to consultation and engagement (to be considered as part of the review of the communications team and consideration of functions of community focus services).	Head of Legal and Commercial
	Development of commercial strategy, to include review of need for a partnership working framework.	Head of Legal and Commercial
<b>Principle D : Determining the interventions necessary to optimise the achievement of the intended outcomes</b>	Review of the Business Improvement function.	Head of Legal and Commercial
	Consider introduction of public consultation on budget proposals.	Head of Finance
	Approach to consultation and engagement (to be considered as part of the review of the customer services, business improvement and communications teams and consideration of functions of community focus services).	Head of Legal and Commercial / Head of Communities
	Development of commercial strategy, to include review of need for a partnership working framework (as above).	Head of Legal and Commercial



CIPFA/SOLACE Principle	Improvement	Owner
<b>Principle E : Developing the entity’s capacity, including the capability of its leadership and the individuals within it</b>	Partnership Framework to be developed (as above)	Head of Legal and Commercial
	Develop and implement People Plan	Head of HR and Organisational Development
	Corporate Asset Management Strategy required to go with HRA Asset Management Strategy.	Head of Housing and Assets
<b>Core Principle F : Managing risks and performance through robust internal control and strong public financial management</b>  <small>5</small>	Implementation of In-Phase	Head of HR and Organisational Development
	Complete outstanding actions identified as part of the internal audit of anti-fraud and corruption in 2016/17. Raise awareness of anti-fraud and corruption with staff.	Head of Finance
	Embed finance business partnering model, including review of effectiveness and procure new finance system.	Head of Finance
	Implement actions to address issues identified through Internal Audit of Sundry Debtors.	Head of Finance
	Review the Council's supplier hosted systems and introduce measures to ensure that a SOC 2 report (or equivalent) is obtained on an annual basis.	Head of Customer Services
<b>Core Principle G : Implementing good practices in transparency, reporting, and audit to deliver effective accountability</b>	Review and strengthen management and reporting arrangements for the Revenues and Benefits Partnership.	Head of Customer Services

## 5. Overall opinion and conclusion

### Conclusion

The Council is satisfied that appropriate governance arrangements are in place however it remains committed to maintaining and where possible improving these arrangements, in particular by addressing the issues identified in undertaking the annual review. The Council will continue to seek to enhance and strengthen governance arrangements within these areas for improvement and monitor progress made as part of our next annual review.

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## 6. Statement of Leader and Chief Executive

*We have been advised on the implications of the result of the review of the effectiveness of the governance framework carried out by members of the Corporate Leadership Team and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.*

Signed



Councillor Richard Blunt

Leader of the Council

10 October 2018

Signed



Bev Smith

Chief Executive

10 October 2018





# Annual Governance Statement

## 38 Assurance Review

May 2018

Assurance and evidence in support of the Council's annual governance statement

Assessment Score:

Good – Good governance exists and there are no improvements required

Fair – Satisfactory governance exists but improvements are required to meet good governance

Poor – Significant issues with governance exist which needs addressing

## Core Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

### Supporting Principle 1: Behaving with Integrity

Requirement of local authorities to:	Assessment	Evidence	Significant Issues	Areas for Improvement
<p>1. Ensuring members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the organisation.</p>	Good	<p>Constitution (incl. statutory officers, scheme of delegation, financial management and procurement rules)            Council, Cabinet, Committees            Service policies            Complaints procedure            Head of Paid Service, Monitoring Officer and s151 Officer            HR policies and procedures            Anti-fraud and corruption policy, which includes whistle-blowing and other countering fraud arrangements            Staff and member training including mandatory training for planning and licensing and appeals committees            Induction for new members and staff.            Codes of conduct            BEE valued appraisal system.            Standards and Ethics report taken to Audit and Governance Committee quarterly            Corporate Leadership Team and extended Corporate management Team.            External Audit reports            Internal Audit reports</p>	None	None

Requirement of local authorities to:	Assessment	Evidence	Significant issues	Areas for improvement
2. Ensuring members take the lead in establishing specific standard operating principles or values for the organisation and its staff and that they are communicated and understood. These should build on the Seven Principles of Public Life (the Nolan Principles)	Good	Council Delivery Plan Council's values as set out in the Council Delivery Plan	None	None
3. Leading by example and using these standard operating principles or values as a framework for decision making and other actions	Good	Council leadership (Leader of the Council and portfolio holders) Declarations of interest noted. Up-to-date register of gifts and hospitality.	None	None
4. Demonstrating, communicating and embedding the standard operating principles or values through appropriate policies and processes which are reviewed on a regular basis to ensure that they are operating effectively	Good	Anti-fraud and corruption policy, register of interests and annual declaration of related parties. Whistle blowing policy which staff are aware of. Anti-fraud and corruption audit undertaken in 2016/17 identified a number of improvements required which are timetabled in an action plan. Complaints policy well established and continually reviewed, improved and reported on. Members and officers code of conduct refers to a requirement to declare interests Minutes show declarations of interest were sought and appropriate declarations made.	None	None

## Supporting Principle 2: Demonstrating strong commitment to ethical values

Requirement of local authorities to:	Assessment	Evidence	Significant Issues	Areas for Improvement
1. Seeking to establish, monitor and maintain the organisation's ethical standards and performance	Good	Values embedded into induction process for officers and members and appraisals for staff. Standards and Ethics report taken to Audit and Governance Committee quarterly.	None	None
2. Underpinning personal behaviour with ethical values and ensuring they permeate all aspects of the organisation's culture and operation	Good	Values embedded into induction process for officers and members and appraisals for staff.	None	None
3. Developing and maintaining robust policies and procedures which place emphasis on agreed ethical values	Fair	Appraisal process built upon values of the Council. Equality Policy in place, but requires review as existing policy does not satisfy equalities obligations or reflect changes in legislation (i.e. does not fulfil publish information requirements).	None	Review of Equality Policy scheduled for completion in 2017/18, however due to a number of delays this policy will now be formally adopted in 2018/19.
4. Ensuring that external providers of services on behalf of the organisation are required to act with integrity and in compliance with high ethical standards expected by the organisation	Good	Key partnerships have mechanisms in place to define role and scope of partners. Procurement exercises include assessment criteria around social value.	None	None

## Supporting Principle 3: Respecting the rule of law

Requirement of local authorities to:	Assessment	Evidence	Significant Issues	Areas for Improvement
1. Ensuring members and staff demonstrate a strong commitment to the rule of the law as well as adhering to relevant laws and regulations	Good	Constitution is adhered to and reviewed regularly. Statutory provisions are adhered to. Head of Paid Service, Monitoring Officer and s151 Officer in place.	None	None
2. Creating the conditions to ensure that the statutory officers, other key post holders and members are able to fulfil their responsibilities in accordance with legislative and regulatory requirements	Good	Job descriptions and roles of statutory officers are well defined and understood by the organisation. Structure of the CLT ensures statutory officers are included in key decision making.  In February 2018, formal arrangements for the council's S151 Officer were put in place through a review of the senior management team. The Head of Finance and S151 duties are fulfilled in line with CIPFA's Statement on the Role of the Chief Financial Officer in Local Government (CIPFA, 2016).	None	None
3. Striving to optimise the use of the full powers available for the benefit of citizens, communities and other stakeholders	Good	Arrangements in place for legal advice and recording of advice. All reports requiring a decision are considered by Finance, Legal and HR staff before being considered by the relevant decision making forum	None	None
4. Dealing with breaches of legal and regulatory provisions effectively	Good	Proper arrangements in place for legal advice and recording of advice, Monitoring Officer referenced to give advice and ensure Council's operates within the law at all times.	None	None
5. Ensuring corruption and misuse of power are dealt with effectively	Good	Whistleblowing policy, anti-fraud and corruption policy. Call-in arrangements.	None	None

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## Core Principle B: Ensuring openness and comprehensive stakeholder engagement

Requirement of local authorities to:	Assessment	Evidence	Significant Issues	Areas for Improvement
1. Ensuring an open culture through demonstrating, documenting and communicating the organisation's commitment to openness	Good	Council Delivery Plan and Annual Report. FOI requests actively responded to, website, online publishing of expenditure.	None	None
2. Making decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes. The presumption is for openness. If that is not the case, a justification for the reasoning for keeping a decision confidential should be provided	Good	Record of decision making and supporting materials. Standard report format used. The Council's governance framework aims to ensure it sets and meets its objectives and responsibilities in a lawful, timely, open, inclusive and honest manner; and that its use of public money and resources are safeguarded, properly accounted for and used economically, efficiently and effectively.	None	None
3. Providing clear reasoning and evidence for decisions in both public records and explanations to stakeholders and being explicit about the criteria, rationale and considerations used. In due course, ensuring that the impact and consequences of those decisions are clear	Good	Decisions well documented with supporting information and advice included. Forward Plan detailing report publication on a timely basis. Calendar of dates for submitting, publishing and distributing timely reports is adhered to Council, Cabinet and committee meetings are normally open to the public. The conduct of business is defined by formal procedures and rules that are set out in the Constitution.	None	None

Requirement of local authorities to:	Assessment	Evidence	Significant Issues	Areas for Improvement
4. Using formal and informal consultation and engagement to determine the most appropriate and effective interventions / courses of action	Fair	Customer and staff satisfaction surveys carried out regularly (e.g. Residents STAR survey in 2017). Consultation exercises carried out periodically (e.g. resident pop up events on housing estates). However a Council policy for consultations does not exist.	None	Approach to engagement and consultation to be considered as part of the review of the customer services, business improvement and communications teams and consideration of the functions within community services.



## Supporting Principle 2: Engaging comprehensively with institutional stakeholders

Requirement of local authorities to:	Assessment	Evidence	Significant Issues	Areas for Improvement
1. Effectively engaging with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that outcomes are achieved successfully and sustainably	Fair	Formal and informal partnerships in place.	None	The Council is at the beginning of a piece of work to develop a commercial strategy to support the Journey to Self Sufficiency Programme. Phase 1 of the management restructure created the post of the head of legal and commercial services and this will be a key piece of work for the post holder. The need for a partnership working framework will be considered as part of that work. (see principle D, supporting principle 2)
2. Developing formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively	Fair	Partnership working across the authority is strong in some areas but needs to be embedded across the Council. Service Level Agreements. Partnership agreements exist.	None	
3. Ensuring that partnerships are based on: trust, a shared commitment to change, a culture that promotes and accepts challenge among partners and that the added value of partnership working is explicit	Fair	As above, good, strong partnerships exists in some areas. Partnership agreements exist.	None	

## Core Principle C: Defining outcomes in terms of sustainable economic, social, and environmental benefits

### Supporting Principle 1: Defining outcomes

Requirement of local authorities to:	Assessment	Evidence	Significant Issues	Areas for Improvement
1. Having a clear vision which is an agreed formal statement of the organisation's purpose and intended outcomes containing appropriate performance indicators, which provides the basis for the organisation's overall strategy, planning and other decisions	Good	The Council Delivery Plan defines the vision for the Council, including values and priorities. Service Plans are developed based on the Council Delivery Plan.	None	None
2. Specifying the intended impact on, or changes for, stakeholders including citizens and service users. It could be immediately or over the course of a year or longer	Good	Intended impacts set out in Council Delivery Plan.  Plans in place to address impact of the introduction of Universal Credit, and the Homelessness Reduction Act.	None	None
3. Delivering defined outcomes on a sustainable basis within the resources that will be available	Good	Team Business Plans developed for each service area. Monthly performance and finance reports monitored by CLT and Portfolio Holders; Quarterly reports monitored by CLT and Cabinet.	None	None
4. Identifying and managing risks to the achievement of outcomes	Good	Monthly performance and finance reports monitored by CLT and Portfolio Holders; Quarterly reports monitored by CLT and Cabinet.	None	None
5. Managing service users expectations effectively with regard to determining priorities and making the best use of the resources available	Good	Performance Indicators within Team Business Plans include agreed set of quality standard measures.	None	None

## Supporting Principle 2: Sustainable economic, social and environmental benefits

Requirement of local authorities to:	Assessment	Evidence	Significant Issues	Areas for Improvement
1. Considering and balancing the combined economic, social and environmental impact of policies, plans and decisions when taking decisions about service provision	Good	We actively consider the social and economic impact of policies in decisions. An example of this is social value considerations in procurement exercises. A live example of the environmental impact of policies is the programme of solid fuel heating system replacements in Council homes where we are replacing solid fuel systems with renewable technology.	None	None
2. Taking a longer-term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the organisation's intended outcomes and short-term factors such as the political cycle or financial constraints	Good	Record of decision making and supporting materials made available publicly on website. Improvements arising from the 2016/17 assurance review have introduced a 5 year planning timeframe for the medium term financial strategy. The 2018/19 – 2022/23 Medium Term Financial Strategy was approved by Cabinet on 6 February 2018.  The MTFS will be presented to members again in Q1 2018/19 to take account of 2017/18 financial performance and to review the assumptions in light of the council's current position and external factors. The MTFS will then be revised and updated as part of annual budget setting during Q3 2018/19.	None	None
47 3. Determining the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs	Good			

Requirement of local authorities to:	Assessment	Evidence	Significant Issues	Areas for Improvement
<p>3. Determining the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs</p>	<p>Good</p>	<p>Elected members act in public interest. Record of decisions made available to public via website. Consultations on key projects with key groups. Members abide by the code of conduct and all committee reports are prepared to reflect all the relevant options, risks and benefits – so members have all the relevant information in front of them when they make a decision. Cite Local Plan as an example? The Council is transparent in decision making. We publish all our agendas and minutes. . We follow statutory requirements for consultation and very often go above that in terms of community engagement.</p>	<p>None</p>	
<p>4 Ensuring fair access to services</p>	<p>Good</p>	<p>Equalities Officer in post. All new policies presented for approval require Equalities Impact Assessment to be completed and regularly reviewed as part of ensuring fair access. Accessible website?</p>	<p>None</p>	<p>None</p>

## Supporting Principle 1: Determining interventions

Requirement of local authorities to:	Assessment	Evidence	Significant Issues	Areas for Improvement
1. Ensuring decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and including the risks associated with those options. Therefore ensuring best value is achieved however services are provided	Good	All reports details options appraisals and risks associated with decisions.	None	None
2. Considering feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands within limited resources available including people, skills, land and assets and bearing in mind future impacts	Fair	Car park strategy. MTFS. Statutory consultation on budget undertaken annually could be widened to obtain views of service users. The Tenant Scrutiny Panel present reports to Cabinet recommending improvements or changes to housing services.	None	Consider introduction of public consultation on budget proposals as part of review of approach to consultations

## Core Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes

### Supporting Principle 2: Planning interventions

Requirement of local authorities to:	Assessment	Evidence	Significant Issues	Areas for Improvement
1. Establishing and implementing robust planning and control cycles that cover strategic and operational plans, priorities and targets	Good	Calendar dates for all Council meetings agreed in advance, reports published in a timely manner ensuring a robust planning cycle.  Monthly performance and finance reports monitored by CLT and Portfolio Holders; Quarterly reports monitored by CLT and Cabinet.	None	None
2. Engaging with internal and external stakeholders in determining how services and other courses of action should be planned and delivered	Fair	We regularly consult in some areas of the Council. Tenant Scrutiny Panel investigates and challenges how housing services are delivered. Council approach to consultation to be reviewed.	None	Review approach to consultation (as above).
3. Considering and monitoring risks facing each partner when working collaboratively including shared risks	Fair	Strong partnerships exist in some areas. Partnership agreements exist. Partnership framework to be developed and linked to risk management strategy	None	Review the need for a Partnership Working framework as part of development of a Commercial and Sustainability Strategy (see principle D).
4. Ensuring arrangements are flexible and agile so that the mechanisms for delivering outputs can be adapted to changing circumstances	Good	Delegated responsibility in some areas. Constitution is flexible.	None	None

Requirement of local authorities to:	Assessment	Evidence	Significant Issues	Areas for Improvement
5. Establishing appropriate key performance indicators (KPIs) as part of the planning process in order to identify how the performance of services and projects is to be measured	Good	KPIs established and approved for each service and included in Team Business Plans.  Quarterly Performance Reports are considered by Cabinet.	None	None
6. Ensuring capacity exists to generate the information required to review service quality regularly	Fair	Performance is included to give context for decisions to be made where necessary	None	Review of the Business Improvement function will need to address this requirement.
7. Preparing budgets in accordance with organisational objectives, strategies and the medium term financial plan	Good	CDP and Team Business Planning timetable currently not in sync with financial planning timetable.  Strategic and Financial Planning timetable reviewed and aligned for 2018/19 planning, enabling a more integrated approach.	None	None
8. Informing medium and long term resource planning by drawing up realistic estimates of revenue and capital expenditure aimed at developing a sustainable funding strategy	Fair	Medium Term Financial Plan in place via MTFS for 3 year period from 2017/18. 35 year HRA Business Plan cash flow model.  Medium Term Financial Strategy developed during 2017/18 to plan over a 5 year timeframe and incorporate the HRA business plan cash flow model and capital programmes.	None	Develop Commercial and Sustainability strategy to support MTFS, to include approach to partnerships.

## Supporting Principle 3: Optimising achievement of intended outcomes

Requirement of local authorities to:	Assessment	Evidence	Significant Issues	Areas for Improvement
1. Ensuring the medium term financial strategy integrates and balances service priorities, affordability and other resource constraints	Good	MTFS and budget formulated with strategic view of service priorities and involvement of Members and CLT.	None	None
2. Ensuring the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term	Good	5 year Capital budget planning. Revenue currently only planned 1 year at a time. MTFS focuses on 3 year medium term. 5 year revenue planning introduced in 2017/18 as part of the 2018/19 budget planning.	None	
3. Ensuring the medium term financial strategy sets the context for ongoing decisions on significant delivery issues or responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while optimising resource usage	Good	Financial summary of MTFS updated annually or more frequently if information is received warrants an update.	None	None
4. Ensuring the achievement of 'social value' through service planning and commissioning.	Good	Social value considered through procurement processes. i.e. new build Council housing.	None	None



## Core Principle E: Developing the entity’s capacity, including the capability of its leadership and the individuals within it

### Supporting Principle 1: Developing the entity’s capacity

Requirement of local authorities to:	Assessment	Evidence	Significant Issues	Areas for Improvement
1. Reviewing operations, performance use of assets on a regular basis to ensure their continuing effectiveness	Fair	Reviews of structures, ways of working and performance carried out as necessary. Interim Property Services team establishing an asset register so that strategy can be developed. Acquisitions and Disposals Policies. Selective disposal of HRA assets has taken place.	None	Corporate Asset Management Strategy required to go with HRA Asset Management Strategy.
2. Improving resource use through appropriate application of techniques such as benchmarking and other options in order to determine how the authority’s resources are allocated so that outcomes are achieved effectively and efficiently	Good	Services encouraged to make use of APSE benchmarking subscription via Team Business Planning process.	None	None
3. Recognising the benefits of partnerships and collaborative working where added value can be achieved	Fair	Revenues and Benefits Partnership, Shared Internal Audit service. Strong partnerships exist in some areas. Partnership agreements exist. Partnership framework to be developed.	None	Review the need for a Partnership Working framework as part of development of a Commercial and Sustainability Strategy (see principle D).
4. Developing and maintaining an effective workforce plan to enhance the strategic allocation of resources	Fair	Formal arrangements for the Head of Human Resources and Organisational Development confirmed as part of the senior management restructure in February 2018. People Plan to be developed and adopted in 2018/19.	None	Development and adoption of People Plan.

## Supporting Principle 2: Developing the capability of the entity’s leadership and other individuals

Requirement of local authorities to:	Assessment	Evidence	Significant Issues	Areas for Improvement
1. Developing protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained	Good	Regular Strategy Group meetings between the Leader, Deputy Leader, Chief Executive and Directors.	None	None
2. Publishing a statement that specifies the types of decisions that are delegated and those reserved for the collective decision making of the governing body	Good	Regular review of delegation and financial regulations. Constitution.	None	None
3. Ensuring the leader and the chief executive have clearly defined and distinctive leadership roles within a structure whereby the chief executive leads the authority in implementing strategy and managing the delivery of services and other outputs set by members and each provides a check and a balance for each other’s authority	Good	Clear roles and responsibilities with CE’s objectives set and monitored by Members. Regular 1:1’s in place for Chief Executive.	None	None

Requirement of local authorities to:	Assessment	Evidence	Significant Issues	Areas for Improvement
<p>4. Developing the capabilities of members and senior management to achieve effective shared leadership and to enable the organisation to respond successfully to changing legal and policy demands as well as economic, political and environmental changes and risks by:</p> <ul style="list-style-type: none"> <li>• Ensuring members and staff have access to appropriate induction tailored to their role and that ongoing training and development matching individual and organisational requirements is available and encouraged</li> <li>• Ensuring members and officers have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis</li> <li>• Ensuring personal, organisational and system-wide development through shared learning, including lessons learnt from governance weaknesses both internal and external</li> </ul>	Good	Members trained as and when required. Formal induction process for new administration and new members.	None	None
5. Ensuring that there are structures in place to encourage public participation	Fair	Have your say, Tenant groups.	None	Review approach to consultation (as above).
6. Taking steps to consider the leadership's own effectiveness and ensuring leaders are open to constructive feedback from peer review and inspections	Good	Members performance monitored, Cabinet held to account by PDG and call-in arrangements.	None	None

Requirement of local authorities to:	Assessment	Evidence	Significant Issues	Areas for Improvement
7. Holding staff to account through regular performance reviews which take account of training or development needs	Good	Staff development plans linked to BEE appraisals	None	None
8. Ensuring arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing	Good	Discount on leisure facilities for staff. Careserve, 24 hours service providing advice and counselling service around family, personal, debt, workplace, home and health issues. Coaching and mentoring available.	None	None

## Core Principle F: Managing risks and performance through robust internal control and strong public financial management

### Supporting Principle 1: Managing risk

Requirement of local authorities to:	Assessment	Evidence	Significant Issues	Areas for Improvement
1. Recognising that risk management is an integral part of all activities and must be considered in all aspects of decision making	Good	Risk Management system in place with regular monitoring at Team Manager/HoS level and CLT and Cabinet.  As a result of improvements in 2017/18, the Audit and Governance Committee actively review risks on a quarterly basis and have also undergone risk management training.	None	None
2. Implementing robust and integrated risk management arrangements and ensuring that they are working effectively	Good	Risk management policy formally approved and adopted.  Revised Risk Management Policy approved at Cabinet 1 May 2018.	None	None
3. Ensuring that responsibilities for managing individual risks are clearly allocated	Good	Risk Management system in place with regular monitoring at Team Manager/HoS level and CLT and Cabinet. Each risk has an owner responsible.	None	None

## Supporting Principle 2: Managing Performance

Requirement of local authorities to:	Assessment	Evidence	Significant Issues	Areas for Improvement
<p>1. Monitoring service delivery effectively including planning, specification, execution and independent post implementation review</p>	<p>Fair</p>	<p>Monitoring of service delivery currently completed through team business plans. Calendar of monitoring dates from Team Manager level to Portfolio Holder published and reporting dates adhered to by the organisation.</p>	<p>None</p>	<p>The Council is currently implementing a project to introduce the Inphase corporate performance management tool. This will be rolled out with pilot service areas in 2018/19 with a view to having full implementation of phase 1 by the end of the financial year. This will reduce the burden of reporting performance data and provide relevant timely information to managers and members. Phases 2 and 3 of the inphase project will integrate the system with risk management, the new finance system and management of absence information</p>

Requirement of local authorities to:	Assessment	Evidence	Significant Issues	Areas for Improvement
2. Making decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in the organisation's financial, social and environmental position and outlook	Good	Information discussed at Cabinet pre-meet and Strategy Group as necessary	None	None
3. Ensuring an effective scrutiny or oversight function is in place which encourages constructive challenge and debate on policies and objectives before, during and after decisions are made thereby enhancing the organisation's performance and that of any organisation for which it is responsible (OR, for a committee system) Encouraging effective and constructive challenge and debate on policies and objectives to support balanced and effective decision making	Good	Scrutiny role established via Audit and Governance Committee and Policy Development Group. Meetings held once per quarter and published in advance. Agendas and minutes published	None	None
4. Providing members and senior management with regular reports on service delivery plans and on progress towards outcome achievement	Good	Calendar of dates published and reporting dates adhered to	None	None
5. Ensuring there is consistency between specification stages (such as budgets) and post implementation reporting (eg financial statements )	Good	Standing orders in place. Approval reports separate from financial updates	None	None

## Supporting Principle 3: Robust internal control

Requirement of local authorities to:	Assessment	Evidence	Significant Issues	Areas for Improvement
1. Aligning the risk management strategy and policies on internal control with achieving the objectives	Good	Risk management strategy, audit plan and regular audit reports.	None	None
2. Evaluating and monitoring the authority's risk management and internal control on a regular basis	Good	Risk management policy with risks reviewed regularly by CLT and Cabinet. Risks should be monitored by the Audit and Governance Committee but this has not happened since November 2015.  Due to improvements in 2017/18 a cross-service Risk Management Group is established which meets on a quarterly basis to review risks. Risks are now regularly report to Audit and Governance Committee.	None	None
3. Ensuring effective counter fraud and anti-corruption arrangements are in place	Fair	Compliance with the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014). Anti-fraud and anti-corruption policies in place.  Anti-fraud and corruption audit undertaken in 2016/17 identified a number of improvements required which are timetabled in an action plan. Due to senior management changes a number of these actions remain outstanding and will now be completed by the Head of Finance during 2018/19. More work to raise the profile of fraud amongst staff could be done	None	Completion of anti-fraud actions identified as part of anti-fraud and corruption audit to be completed.  Awareness raising of anti-fraud and corruption to take place amongst staff.
4. Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor	Good	Annual governance statement, internal audit arrangements adequate with internal audit actively involved in service improvement.	None	None



Requirement of local authorities to:	Assessment	Evidence	Significant Issues	Areas for Improvement
<p>5. Ensuring an audit committee or equivalent group or function which is independent of the executive and accountable to the governing body: provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment that its recommendations are listened to and acted upon</p>	<p>Good</p>	<p>Audit committee complies with best practice. See Audit Committees: Practical Guidance for Local Authorities and Police (CIPFA, 2013)</p> <p>Terms of Reference in place for Committee.</p> <p>Training programme developed for committee members including subject areas of risk and understanding local government finance. Risk Management training undertaken in 2017/18 with finance sessions to enable committee members to approve the financial statements in Q1 2018/19 scheduled.</p>	<p>None</p>	<p>None</p>

## Supporting Principle 4: Managing Data

Requirement of local authorities to:	Assessment	Evidence	Significant Issues	Areas for Improvement
1. Ensuring effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data	Good	Policies in place for data management and data protection. Designated data protection officer. Information Corporate Action Team in place to monitor safeguarding measures and lead strategy for the organisation supported by Information Champions in each department	None	None
2. Ensuring effective arrangements are in place and operating effectively when sharing data with other bodies	Fair	Data sharing agreements in place and data processing agreements where necessary. We are currently in the process of ensuring all suppliers are compliant with data protection and GDPR legislation. During the IT audit of 2017/18 it was identified by our external auditors that arrangements for obtaining and reviewing a Service Organisation Controls ("SOC 2") report from the service provider of the council's new hosted payroll software system was not in place.	None	A review of the Council's supplier hosted systems to be carried out and measures should be put in place within each of these service areas to ensure that a SOC 2 report (or equivalent) is obtained on an annual basis.
3. Reviewing and auditing regularly the quality and accuracy of data used in decision making and performance monitoring	Good	Regular internal audits carried out.	None	None

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## Supporting Principle 5: Strong public financial management

Requirement of local authorities to:	Assessment	Evidence	Significant Issues	Areas for Improvement
1. Ensuring financial management supports both long term achievement of outcomes and short-term financial and operational performance	Fair	<p>Review of finance function during April 2017 identified some improvements in respect of support to service areas in respect of financial management.</p> <p>Finance Business Partnering model developed and due to be launched in Q1 2018/19 to achieve balance between budget holders and finance team in respect of responsibilities.</p>	None	Managed embedding of Finance Business Partnering model, including review of effectiveness.
<p>2. Ensuring well-developed financial management is integrated at all levels of planning and control, including management of financial risks and controls</p> <p>8</p>	Fair	<p>Budget monitoring reports and regular reviews, however greater engagement required between finance and services.</p> <p>New finance system to be procured to automate and make monthly reporting more efficient.</p> <p>One Grade 3 Internal Audit report was issued during 2017/18 in relation to sundry debtors. The report highlighted that procedures were weak. Further detail can be found in the Annual Internal Audit report.</p>	None	Managed embedding of Finance Business Partnering model, including review of effectiveness. Review to also include assessment of monitoring papers not required by budget holders. New finance system procurement to be undertaken. Implement actions to address issues identified in Internal Audit of Sundry Debtors.

## Core Principle G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability

### Supporting Principle 1: Implementing good practice in transparency

Requirement of local authorities to:	Assessment	Evidence	Significant Issues	Areas for Improvement
1. Writing and communicating reports for the public and other stakeholders in an understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate	Good	Website user friendly, annual report, reports written in 'plain English'. Annual Statement of Accounts for 2017/18 reviewed for accessibility, with revised format adopted for production of the 2017/18 statements.	None	None
2. Striking a balance between providing the right amount of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand	Good	Website user friendly, annual report, reports written in 'plain English'. Annual Report produced in accessible format.	None	None

## Supporting Principle 2: Implementing good practices in reporting

Requirement of local authorities to:	Assessment	Evidence	Significant Issues	Areas for Improvement
1. Reporting at least annually on performance, value for money and the stewardship of its resources	Good	Council Annual report, Statement of Accounts. Regular customer satisfaction surveys with results published in Annual reports.	None	None
2. Ensuring members and senior management own the results	Good	Members and CLT approve reports	None	None
3. Ensuring robust arrangements for assessing the extent to which the principles contained in the Framework have been applied and publishing the results on this assessment including an action plan for improvement and evidence to demonstrate good governance (annual governance statement)	Good	Annual governance statement. As part of improvements identified in 2016/17 assurance review, evidence of assurance is documented and made available to users of financial statements. Progress against improvements reported to Audit and Governance Committee quarterly. The timetable for the production of the Annual Governance Statement improved for 2017/18 with review commencing in April 2018 and the statement published alongside the draft Statement of Accounts.	None	None
4. Ensuring that the Framework is applied to jointly managed or shared service organisations as appropriate	Good	Annual governance statement, application of policies where NWLDC works in partnership with other organisations.	None	None
5. Ensuring the performance information that accompanies the financial statements is prepared on a consistent and timely basis and the statements allow for comparison with other similar organisations	Good	Format follows best practice	None	None

## Supporting Principle 3: Assurance and effective accountability

Requirement of local authorities to:	Assessment	Evidence	Significant Issues	Areas for Improvement
1. Ensuring that recommendations for corrective action made by external audit are acted upon	Good	Recommendations from external audit acted upon. Compliance of Internal Audit arrangements with the Public Sector Internal Audit Standards. Regular communication between S151 Officer and Audit Manager.	None	None
2. Ensuring an effective internal audit service with direct access to members is in place which provides assurance with regard to governance arrangements and recommendations are acted upon	Good	Internal Audit report directly to Audit and Governance Committee. Recommendations from internal audit acted upon with internal audit being actively referenced to assist with service improvements. Compliance of Internal Audit arrangements with Public Sector Internal Audit Standards. Regular communication between S151 Officer and Audit Manager.	None	None
3. Welcoming peer challenge, reviews and inspections from regulatory bodies and implementing recommendations	Good	Peer challenge undertaken in respect of Planning. A number of recommendations were made and accepted by Council which are now timetable for implementation during 2018/19.	None	None
4. Gaining assurance on risks associated with delivering services through third parties and that this is evidenced in the annual governance statement	Fair	Partnership approach in place with the Revenues and Benefits Partnership where management board and joint committee in place with regular meetings providing oversight. However, to strengthen the management arrangements of this partnership the management and reporting arrangements should be reviewed.	None	Management and reporting arrangements for the partnership to be reviewed and strengthened.
5. Ensuring that when working in partnership, arrangements for accountability are clear and that the need for wider public accountability has been recognised and met	Fair	Partnership approach in place with the Revenues and Benefits Partnership where management board and joint committee in place with regular meetings providing oversight. However, to strengthen the management arrangements of this partnership the management and reporting arrangements should be reviewed.	None	None



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**NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL**

**AUDIT & GOVERNANCE COMMITTEE – 10 OCTOBER 2018**

Title of report	<b>ANNUAL STATEMENT OF ACCOUNTS 2017/18</b>
Contacts	<p>Councillor Nick Rushton 01530 412059 <a href="mailto:nicholas.rushton@nwleicestershire.gov.uk">nicholas.rushton@nwleicestershire.gov.uk</a></p> <p>Strategic Director of Housing and Customer Services 01530 454819 <a href="mailto:glyn.jones@nwleicestershire.gov.uk">glyn.jones@nwleicestershire.gov.uk</a></p> <p>Head of Finance and Section 151 Officer 01530 454707 <a href="mailto:tracy.bingham@nwleicestershire.gov.uk">tracy.bingham@nwleicestershire.gov.uk</a></p>
Purpose of report	For the Committee to consider and approve the Annual Statement of Accounts for 2017/18.
Reason for Decision	To comply with the Accounts and Audit Regulations
Council Priorities	Value for Money
Implications:	
Financial/Staff	No direct implications.
Link to relevant CAT	None
Risk Management	The presentation of audited accounts giving a true and fair view assists in maintaining the council's financial standing and reputation.
Equalities Impact Screening	No impact.
Human Rights	None identified.
Transformational Government	No direct implications.
Consultees	External Auditors (KPMG)
Background papers	<p>Working papers held in the Financial Planning section.</p> <p>Statement of Accounts 2017/18 (unaudited) - <a href="https://www.nwleics.gov.uk/files/documents/statement_of_accounts_2017_18/Statement%20of%20Accounts%202017-18%20310518.pdf">https://www.nwleics.gov.uk/files/documents/statement_of_accounts_2017_18/Statement%20of%20Accounts%202017-18%20310518.pdf</a></p> <p>Public Audit Notice 2017/18 - <a href="https://www.nwleics.gov.uk/files/documents/public_audit_notice_2017_18/Public%20Audit%20Notice%202017%2018.pdf">https://www.nwleics.gov.uk/files/documents/public_audit_notice_2017_18/Public%20Audit%20Notice%202017%2018.pdf</a></p>

Recommendations	<p><b>(A) THAT THE COMMITTEE APPROVES THE ANNUAL STATEMENT OF ACCOUNTS</b></p> <p><b>(B) THAT THE CHAIRMAN OF THE MEETING IS AUTHORISED TO SIGN THE ACCOUNTS AS APPROVED</b></p> <p><b>(C) TO DELEGATE AUTHORITY TO THE COMMITTEE CHAIRMAN AND SECTION 151 OFFICER TO APPROVE ANY MINOR NON MATERIAL AMENDMENTS, AS AGREED WITH THE AUDITOR, TO THE ACCOUNTS ON BEHALF OF THE COMMITTEE</b></p>
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## **1.0 BACKGROUND**

- 1.1 The unaudited accounts were signed off by the Head of Finance and Section 151 Officer on 31 May 2018 in line with statutory requirements. The final audited version of the Statements were due for approval by 31 July 2018 (in line with statutory requirements) however, due to the identification of technical accounting issues relating to the valuation of property (which were identified following the publication of draft accounts) the program for the production of the final and audited Statement of Accounts was delayed. These technical capital accounting issues relate to the valuation of property, and do not affect the Housing Revenue Account (or the General Fund) or the amount of useable reserves we hold.
- 1.2 Due to the ongoing external audit of the 2017/18 Statement of Accounts and the requirement for the external audit team and the finance team to finalise findings in respect of the technical capital accounting issues, the final version has not been published with the agenda pack for this meeting. It is anticipated that the Statement of Accounts circulated prior to the Audit and Governance Committee meeting on 10 October 2018 will be the final version without further changes being presented for approval.
- 1.3 The balance sheet position of the council remains stable and healthy, with an increase in net assets of £25m in 2017/18 compared with 2016/17.
- 1.4 The Statement of Accounts should provide electors, those subject to locally levied taxes and charges, members of the authority, employees, other stakeholders and interested parties clear information about the authority's finances.
- 1.5 The accounts of local authorities in the United Kingdom are covered by the Code of Practice on Local Authority Accounting in the United Kingdom (the 'Code'). This must be followed to meet the requirements of the Accounts and Audit Regulations to 'present a true and fair view' of the financial position of the authority.
- 1.6 The Code is based on International Financial Reporting Standards ('IFRS'), amended as necessary in respect of legislation governing local authorities, and as a result of these rules and guidance regarding the layout of the accounts is effectively prescribed and contains:
- Narratives – this sets out to give the reader an understanding of North West Leicestershire as a place, the council and its priorities, the wider economic background and the non-financial and financial performance of the council in 2017/18
  - Statement of Responsibilities – shows the responsibilities of the Council and Chief Financial Officer for these accounts

- Comprehensive Income & Expenditure Account (I&E) – costs of all functions and how they were financed
- Movement in Reserves Statement – shows the movement in reserves during the year between usable and unusable reserves, and the actual change to the reserves after all adjustments.
- Balance Sheet – shows all the Council’s assets and liabilities at the year end, both long and short term.
- Cash Flow Statement – sets out the flow of cash into and out of the Council.
- Notes to the Financial Statements – these explain in more detail the make up of the various amounts included in the above items
- Accounting Policies – technical explanation of main policies and assumptions used in preparing the accounts.
- HRA (Housing Revenue Account) Income & Expenditure Account – this shows income and expenditure regarding Council dwellings.
- Collection Fund – sets out the transactions relating to the collection and distribution of Council Tax and National Non-Domestic Rates (NNDR), or Business Rates as they are more commonly known.
- Special Expenses Accounts – summarises spending in the special expenses areas of the district with details of how this is paid for.
- Auditor’s Report – this is the report of the external auditors, the Audit Commission, on the accounts for the year.

1.7 The Statements must comply with the Code so that comparisons can be made across different authorities and for this reason it is essential that authorities define individual costs in line with the Service Reporting Code of Practice (SERCOP). There should also be good notes and explanations to the accounts to aid understanding and, although by nature a technical document, the notes should be concise and understandable.

## **2.0 RESTATEMENT IN RESPECT OF THE COUNCIL’S HOUSING ASSETS**

2.1 Members will recall that as part of the audit of the 2016/17 accounts and issued auditor’s report, a commitment was made by the former Financial Planning Team Manager and Acting Section 151 Officer (now Head of Finance and Section 151 Officer) to undertake a review of the councils capital position prior to the publication of the 2017/18 draft accounts. The commitment was made in response to there being recurrent issues identified by the external audit team in respect of capital accounting in the audit of the accounts of the 2014/15 – 2016/17 financial years.

2.2 Following this, an independent high level review of capital accounting of HRA properties at North West Leicestershire District Council was commissioned. The review concluded with the identification of a likely material technical error in respect of the council’s capital and valuation accounting for HRA properties.

2.3 Given the materiality and timing of identification of the technical issue, the Head of Finance and Section 151 Officer agreed with the Council’s external auditors, KPMG LLP, and the Council’s Leader, Chief Executive, Corporate Portfolio Holder and Audit and Governance Committee Chair to delay the publication of the final and audited accounts due to the time required to remedy the accounts.

2.4 The position presented in the council’s final accounts includes the restatement of the Council’s Balance Sheet, Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, HRA Accounts and Notes and other relevant Notes, including an additional note to detail the reasons for the prior period adjustment (Note 39).

- 2.5 The Accounting Policy in respect of depreciation has also been amended to reflect the council's approach.

### **3.0 OTHER CHANGES TO ACCOUNTS**

- 3.1 There are a small number of adjustments made to the accounts. They relate mainly to presentational issues and will ensure that the Council complies with technical accounting regulations, specifically CIPFA's Code of Practice on Local Authority Accounting. Changes to the accounts as agreed with external audit include:

- Changes to the narrative report in respect of the amounts of Council Tax and Business Rates collected and retained by the Authority.
- Placement of the Expenditure and Funding Analysis Statement so that it is presented as a note rather than a 'Core Statement'.
- Presentational updates within the narrative report
- Presentational updates within the Notes
- Removal of 2016/17 comparative figures for Heritage Assets (note 12) to recognise that these assets were identified and brought onto the council's Balance Sheet in 2017/18.
- Removal of table within Note 13 and updated with narrative to state that the council does not hold any Assets Held for Sale
- Changes to Note 26 to align the presentation of information with the CIPFA Code
- Changes to Note 27 in respect of the presentation of audit fees
- Update to Accounting Policies to include detail in respect of the issuance of IFRS 16 and the anticipated effect that this will have on the council's accounts in 2018/19.
- Changes to the Collection Fund Statement and correction of error in respect of Business rates appeals and total business rates collected
- Updates to Note 35 to correct errors in the values of respect of financial instruments
- Corrections to the HRA note H3 in respect of the vacant possession value and note H4 in respect of omitted wording.

- 3.2 It is recommended to delegate authority to approve any minor non-material amendments as agreed to the Head of Finance and Section 151 Officer in liaison with the Committee Chairman.

## NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

## AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 10 OCTOBER 2018

Title of report	<b>INTERNAL AUDIT PROGRESS REPORT – SEPTEMBER 2018</b>
Contacts	<p>Councillor Nicholas Rushton 01530 412059 <a href="mailto:nicholas.rushton@nwleicestershire.gov.uk">nicholas.rushton@nwleicestershire.gov.uk</a></p> <p>Head of Legal &amp; Commercial Services/Monitoring Officer 01530 454762 <a href="mailto:Elizabeth.Warhurst@nwleicestershire.gov.uk">Elizabeth.Warhurst@nwleicestershire.gov.uk</a></p> <p>Interim Audit Manager 01530 454728 <a href="mailto:Sharon.Harrison-Bowler@nwleicestershire.gov.uk">Sharon.Harrison-Bowler@nwleicestershire.gov.uk</a></p>
Purpose of report	To inform the Committee of progress against the Internal Audit plan for 2018/19 and to highlight any incidences of significant control failings or weaknesses that have been identified.
Reason for Decision	To comply with the Public Sector Internal Audit Standards.
Council Priorities	Value for Money
Implications:	
Financial/Staff	None.
Link to relevant CAT	None.
Risk Management	The Internal Audit planning process uses a risk assessment based methodology.
Equalities Impact Screening	Not Applicable.
Human Rights	None.
Transformational Government	Not Applicable
Consultees	None.
Background papers	Public Sector Internal Audit Standards 2017/18 & 2018/19 Internal Audit Annual Audit Plan

**1.1 INTRODUCTION**

- 1.1 The Public Sector Internal Audit Standards require the authority's Audit Committee to approve the Audit Plan and monitor progress against it. The Committee should receive periodic reports on the work of internal audit.
- 1.2 The Audit and Governance Committee approved the 2018/19 Audit Plan on 21 March 2018. The Committee receives progress reports quarterly.

**2. TERMS OF REFERENCE**

- 2.1 Section 3 of Part 3 of the Constitution sets out the Terms of Reference of the Audit and Governance Committee, as detailed below:

'To act as the Authority's Audit Committee, to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, and to be responsible for the financial reporting process.'

- 2.2 Particular statements in the Terms of Reference that refer to Internal Audit include:
- a) Approve (but not direct) Internal Audit's strategy and plans and monitor performance
  - b) Review summary Internal Audit reports and the main issues arising, and seek assurance that action has been taken where necessary
  - c) Receive the annual report of Internal Audit.

**3. PROGRESS REPORT**

- 3.1 The Internal Audit Progress Report for the period 01 August 2018 to 28 September 2018 is attached at Appendix 1.



# **INTERNAL AUDIT SHARED SERVICE**

**North West Leicestershire District Council**

**Internal Audit Progress Report**

**SEPTEMBER 2018**

## **1. Introduction**

- 1.1 The assurances received through the Internal Audit programme are a key element of the assurance framework required to inform the Annual Governance Statement. The purpose of this report is to highlight the progress against the 2018/19 Internal Audit Plan up to 28<sup>th</sup> September 2018 and inform the Audit and Governance Committee of any significant control failings that have been identified through Internal Audit work.

## **2. Purpose of Internal Audit**

- 2.1 The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit play a vital role in advising the Council that these arrangements are in place and operating effectively. The Council's response to Internal Audit activity should lead to strengthening of the control environment, and therefore contribute to the achievement of the organisation's objectives.
- 2.2 Internal Audit provide a combination of assurance and consulting/advisory activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

## **3. Authority of Internal Audit**

- 3.1 Internal Audit derives its authority from the Accounts and Audit Regulations 2015, the Internal Audit Charter and the Council's Constitution. The Financial Regulations, which are part of the Constitution, set out that 'Internal Audit has authority to:
- a) enter any Council owned or occupied premises or land at all times (subject to any legal restrictions outside the Council's control);
  - b) have access at all times to the Council's records, documents and correspondence;
  - c) require and receive such explanations from any employee or member of the Council as he or she deems necessary concerning any matter under examination; and
  - d) require any employee or member of the Council to produce cash, stores or any other Council owned property under their control.
  - e) The Senior Auditor shall have access to, and the freedom to report in his/her name to all boards, members or officers, as he/she deems necessary.

## **4 Responsibility of Internal Audit**

- 4.1 Internal Audit will have the responsibility to review, appraise and report as necessary on:
- a) the adequacy and effectiveness and application of internal controls and processes and systems;
  - b) the extent of compliance with Financial Regulations and Standing Orders and approved policies and procedures of the Council plus the extent of compliance with external laws and regulation; and
  - c) the extent to which the Council's assets and interest are accounted for and safeguarded from losses of all kinds arising from waste, inefficient administration, poor value for money, fraud or other cause.



## **5 Independence of Internal Audit**

- 5.1 Internal Auditors must be sufficiently independent of the activities they audit to enable them to provide impartial, unbiased and effective professional judgements and advice. Internal Auditors must maintain an unbiased attitude that allows them to perform their engagements in such a manner that they believe in their work product and that no quality compromises are made.
- 5.2 If independence or objectivity is impaired in fact or appearance, the details of the impairment should be disclosed to senior management and the Audit and Governance Committee.

## **6 Internal Audit Team Update**

- 6.1 The Audit Manager will be returning from maternity leave at the end of November 2018.

## **7 Internal Audit Plan Update**

- 7.1 Since the last update report, three final reports have been issued. This includes two reports relating to additional audits added to the plan in Q4 2017/18 and one report relating to the 2018/19 audit plan. In addition, compliance testing is substantially complete for two audits, one audit is in progress and two further audits are scheduled to commence in October 2018.

The executive summaries for the final reports issued are included in Appendix B.

Progress made against the 2018/19 Internal Audit Plan is documented in Appendix A.

- 7.2 The plan needs to be flexible in order to respond to current risks and resources. There have been minor changes to the number of days allocated to individual audits and one review has been deferred from Q2 to Q3.

## **8 Additional Work**

- 8.1 Internal Audit have undertaken work within the quarter to assist services with requirements for participation in the National Fraud Initiative.
- 8.2 The Audit & Governance Committee Working Group met on 3<sup>rd</sup> September 2018 and is due to meet again on 3<sup>rd</sup> October 2018. Work has been undertaken to facilitate the self-assessment of the Committee in accordance with CIPFA guidance and the results/outcomes of this exercise are currently being reviewed and formulated into action plans. A report will be presented to the Audit & Governance Committee in December 2018.

## **9 Internal Audit Recommendations**

- 9.1 Internal Audit monitors and follows up all critical, high and medium priority recommendations. All outstanding recommendations are included at Appendix C for information. A revised follow-up process has now been introduced. A report template (which includes Appendix C of this report) is now uploaded onto the Mod-Gov Committee reporting system prior to the paper deadline for the Audit and Governance Committee and relevant officers are requested to provide a status update. Members of the Corporate Leadership Team (CLT) are also able to view officer's responses and

monitor the implementation of recommendations within their service area. In addition, progress reports will be reviewed at CLT meetings. Reports will include a summary of any themes /issues identified as a result of the audits undertaken.

- 9.2 The Planning Policy Team Manager will be in attendance at the Audit & Governance Committee on 10th October to provide an update on progress with regards to the s106 recommendations.

## **10 Internal Audit Performance Indicators**

- 10.1 Performance information for Internal Audit in relation to its team plan actions and performance indicators is documented in Appendix D.

## **11. Internal Audit Charter**

- 11.1 The Audit Manager has undertaken the annual review of the Internal Audit Charter. The only changes necessary were in relation to job titles and the organisation structure chart therefore the Charter is not being presented again to this committee. The Charter is available to view on the intranet.

2018/19 AUDIT PLAN PROGRESS TO 28<sup>th</sup> SEPTEMBER 2018

Audit Area (report number)	Type	Planned Days	Actual Days	Status	Assurance Level	Recommendations					Comments
						C	H	M	L	A	
<b>HR &amp; ORGANISATIONAL DEVELOPMENT</b>											
Health & Safety	Risk Based	8	5.9	In progress							
<b>HOUSING</b>											
Homelessness (New Homelessness Reduction Act)	Risk Based	8	-	Scheduled for Q3							
Housing Repairs	Risk Based	15	13.2	Testing substantially complete. Report to be drafted early October.							No of planned days increased due to volume of testing required.
New Council Houses	Risk Based	5		Scheduled for Q3							
Gas/Solid Fuel Servicing and Maintenance	Risk Based	6	9	Testing substantially complete. Report to be drafted early October.							Additional testing identified during the audit
Property Services	Risk Based	8	-	Scheduled for Q4							
Housing ICT review	Advisory	2	-	As required							
<b>COMMUNITY SERVICES</b>											
Grounds Maintenance	Risk Based	7	0.5	To commence October 2018							
Planning Enforcement	Risk Based	8	-	Scheduled for Q3							
Car Parking & Enforcement	Risk Based	6	6.9	Complete	Grade 1						
Environmental Health (Licensing )	Risk Based	8	0.5	To commence October 2018							
<b>PLANNING</b>											
Peer review outcomes (Review of implementation/follow up)	Risk Based	3	-	Scheduled for Q4							
S106 (Detailed follow up )	Risk Based	5	1	Follow up complete. (Full review scheduled for Q3/4)							
<b>ECONOMIC DEVELOPMENT</b>											

Audit Area (report number)	Type	Planned Days	Actual Days	Status	Assurance Level	Recommendations					Comments
						C	H	M	L	A	
Cultural Services	Risk Based	5	-	Scheduled for Q4							May be impacted by Phase 2 of Management Restructure – to review audit requirements in Q4
<b>FINANCE</b>											
Key Financial Systems	Risk Based	35	-	Scheduled for Q3/4							
Contract /Programme Management	Risk Based	6	0.5	Engagement Planning							
Finance service/systems reviews	Advisory	6	0.6	As required							
<b>ICT</b>											
Firmstep – Phase 1 Implementation	Risk Based	6		Deferred to Q3							

## **KEY**

### **Audit Opinion**

<b>Grade</b>	<b>Definition</b>
1	Internal controls are adequate in all important aspects
2	Internal controls require improvement in some areas
3	Internal controls require significant improvement
4	Internal controls are inadequate in all important aspects

### **Recommendation Priority**

<b>Level</b>	<b>Definition</b>
Critical	Recommendations which are of a very serious nature and could have a critical impact on the Council, for example to address a breach in law or regulation that could result in material fines/consequences.
<u>High</u>	Recommendations which are fundamental to the system and require urgent attention to avoid exposure to significant risks.
Medium	Recommendations which, although not fundamental to the system, provide scope for improvements to be made,
Low	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.
Advisory	Issues concerning potential opportunities for management to improve the operational efficiency and/or effectiveness of the system.

## EXECUTIVE SUMMARY OF INTERNAL AUDIT FINAL REPORTS ISSUED 01 AUGUST 2018 – 28 SEPTEMBER 2018

Report	Portfolio Holder	Head of Service & Team Manager	Assurance Level	Main Areas for Improvement	Recommendations				
					C	H	M	L	A
<b>2017/18 Audits</b>									
Grants (Community Focus)	Community Services Portfolio Holder	Chris Brown Stronger & Safer Communities Team Manager  Paul Sanders Head of Community Services	Grade 2	<ul style="list-style-type: none"> <li>Procedures for approval / refusal of grants</li> </ul>		1	1		1
Grants (Business Focus)	Business Portfolio Holder	Barrie Walford Economic Development Officer  Mark Fiander Head of Economic Regeneration	Grade 2	<ul style="list-style-type: none"> <li>Approval of Golden Hello Grants</li> <li>Accuracy of information contained in pipeline</li> </ul>		1	1		
<b>2018/19 Audits</b>									
Car Parking & Enforcement	Community Services Portfolio Holder	Paul Sanders Head of Community Services  Clare Proudfoot Environmental Protection Team Manager	Grade 1	N/A	-	-	-	-	-

See Appendix A for Key.

# RECOMMENDATIONS TRACKER – OUTSTANDING RECOMMENDATIONS

# APPENDIX C

Report	Recommendation	Rating	Officer Responsible	Target Date	Responsible Officer Update (September 2018)	Internal Audit Comments
<b>2016/17 Reports</b>						
11	Review of Compliance with the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption	7	A review should be undertaken to confirm that the policy framework is satisfactory and policies are up to date.	Medium	<b>Head of Finance</b>  Originally assigned to the Head of Transformation	Original target date 26.05.17  The Head of Finance has met with the Interim Audit Manager to discuss this recommendation. It has been identified that more work is required in this area than originally anticipated. The Head of Finance will provide an update to the Audit & Governance Committee.
14	s106	5	The details from the S106 agreement entered onto the S106 database should be sufficient to enable effective monitoring of actions and triggers associated with the agreements.	High	<b>Planning Policy Team Manager</b>	September 2017  A separate update report will be submitted to the Audit and Governance Committee on 10 <sup>th</sup> October 2018 and presented by the Planning Policy Team Manager.
		9	Where other departments retain records of S106 agreements for their own purposes, regular liaison meetings should be held with the department and Planning Policy to ensure that information held by all parties agrees.	Medium	<b>Planning Policy Team Manager</b>	October 2017  A separate update report will be submitted to the Audit and Governance Committee on 10 <sup>th</sup> October 2018 and presented by the Planning Policy Team Manager.

# RECOMMENDATIONS TRACKER – OUTSTANDING RECOMMENDATIONS

# APPENDIX C

Report		Recommendation		Rating	Officer Responsible	Target Date	Responsible Officer Update ( September 2018)	Internal Audit Comments
84		15	Records should be maintained which show the intended recipient of S106 funding, amount due, purpose of funding and date which the funding is to be spent by. There should be a facility whereby the recipient is prompted of funding available on a periodic basis (this information should have been agreed first with the other Council departments that also hold information).	Medium	<b>Planning Policy Team Manager</b>	August 2017	A separate update report will be submitted to the Audit and Governance Committee On 10th October 2018 and presented by the Planning Policy Team Manager.	
		17	Completed funding drawdown applications should be numbered and a record kept of their location should reference to these be required in the future.	Medium	<b>Planning Policy Team Manager</b>	July 2017	A separate update report will be submitted to the Audit and Governance Committee on 10th October 2018 and presented by the Planning Policy Team Manager.	
<b>2017/18 Reports</b>								
8	Assistive Technology	3	Where there has been no contact with a Lifeline Customer for 12 months the Customer should be contacted to confirm that their information held on Central Control records is accurate.	Medium	<b>Housing Support Team Leader</b>	Jul-18		Internal Audit followed up in September 2018. The Housing Support Team Leader highlighted concerns regarding the reliability of reports produced from the relevant system. The feasibility of producing a



# RECOMMENDATIONS TRACKER – OUTSTANDING RECOMMENDATIONS

# APPENDIX C

Report		Recommendation		Rating	Officer Responsible	Target Date	Responsible Officer Update ( September 2018)	Internal Audit Comments
								document to accompany rent statements at year end is to be reviewed. This will prompt customers to verify their information for key contacts etc.  Internal Audit will review this again in February 2019.
CO		15	A Service Level Agreement or similar document should be produced which clearly states the roles and responsibilities for each of the services involved in the provision of the Control Centre Service.	High	<b>Housing Management Team Manager, Housing Support Team Leader, Customer Services Team Leader</b>	May-18	The new Head of Customer Service has been in post since June 18 and has requested the Customer Service Management Team to begin to produce SLA documents with all key areas. The Control Centre will feature as part of this in conjunction with Housing Services. The timeline for implementation is to be extended by +3 months.	Internal Audit will follow up in January 2019.
	10	Capital Accounting	1	It is recommended that a single Asset Disposal Policy is produced which includes disposal of Land and Buildings (Council and HRA), and Plant and Equipment. Responsibility for completion of the Land	High	<b>Head of Finance (S151 Officer) &amp; Asset Management Team Manager</b>	11 December 2018	Action Not yet due

# RECOMMENDATIONS TRACKER – OUTSTANDING RECOMMENDATIONS

# APPENDIX C

Report		Recommendation		Rating	Officer Responsible	Target Date	Responsible Officer Update ( September 2018)	Internal Audit Comments
			<p>and Buildings element of the policy is being assigned to the Asset Management Team Manager, with the Plant and Equipment element being assigned to the Head of Finance (S151 Officer).</p> <p>The policy, once completed, should be formally approved (Asset Management Group, CLT) and made available to relevant staff.</p>					
11	Sundry Debtors	1	Operational procedure notes should be formalised and made available to all relevant staff in line with best practice. It may be prudent to undertake this exercise as part of the implementation of the new finance system in conjunction with any user manuals available.	Medium	<b>Exchequer Services Team Leader</b>	October 2019	<p>Work in progress to formalise all existing procedures.</p> <p>These processes will be reviewed and updated upon implementation of new Finance System.</p>	Internal Audit to review at 2018/19 audit in Quarter 4.
11	Sundry Debtors	6	The possibility of obtaining a report(s) which would identify outstanding debts and the year they are attributable to should be	High	<b>Exchequer Services Team Leader</b>	July 2018	Following the Audit, the system provider (Total Mobile) were contacted. Conversations with new Accounts Manager have taken place and a quote was received on the 21 <sup>st</sup>	Internal Audit to undertake further follow up in October 2018.

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# RECOMMENDATIONS TRACKER – OUTSTANDING RECOMMENDATIONS

# APPENDIX C

Report		Recommendation	Rating	Officer Responsible	Target Date	Responsible Officer Update ( September 2018)	Internal Audit Comments
		investigated. (Aged Debt report)				September. The quote will now be reviewed.	
	8	Credit balances should be reviewed and action taken where appropriate.	Medium	<b>Senior Exchequer Services Assistant</b>	July 2018	This is an ongoing process, a number of the transactions stated in Audit report are resolved. Others require further information from Departments.	This will be fully reviewed during the 2018/19 Internal Audit of Sundry Debtors.
87	9	Aged debtor reports should be issued to services each month, the service should confirm review of the report and provide updates to Exchequer services where necessary.	Medium	<b>Exchequer Services Team Leader</b>	September 2018	Dependant on new report requested from system provider. (See recommendation 6)	Internal Audit to undertake further follow up in October 2018
	10	Debts which are likely to be written off as statute barred (over six years old) should be reviewed to confirm whether any further recovery action is feasible. Further review should be undertaken to establish whether Total Live can generate reports to assist in the review of sundry debtor	Medium	<b>Exchequer Services Team Leader / Senior Exchequer Services Assistant</b>	October 2018	Procedure for dealing with potential write offs has been reviewed and documented. See recommendation 6 regarding availability of report to streamline process.	Internal Audit to follow up in November 2018

# RECOMMENDATIONS TRACKER – OUTSTANDING RECOMMENDATIONS

# APPENDIX C

Report		Recommendation		Rating	Officer Responsible	Target Date	Responsible Officer Update ( September 2018)	Internal Audit Comments
			accounts to ensure that recovery action is taken on a timely basis					
12	Grants (Community Focus)		The procedure in relation to those officers who are required to approve or refuse grant applications should be updated to reflect current practice.	Medium	Stronger and Safer Communities Team Manager	Aug-18		Implemented
			Where decisions have been made to approve or refuse applications evidence of the decision should be retained.	High	Community Focus Support Officer	ASAP		Implemented
			Where applicants are required to submit further evidence in support of their application consideration should be given to setting a timescale as to when the evidence is to be received.	Advisory	Community Focus Team Leader	N/A		Advisory only – No Follow up required.
13	Grants (Business Focus)		Prior to issue of the grant offer letter for Golden Hello grants the application should be reviewed by a Senior Officer and their decision as to whether to award the grant (or otherwise) should be documented.	High	Economic Development Officer	Implementation date dependant on receipt of future grant applications.		Internal Audit to follow up in October 2018

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# RECOMMENDATIONS TRACKER – OUTSTANDING RECOMMENDATIONS

# APPENDIX C

Report		Recommendation	Rating	Officer Responsible	Target Date	Responsible Officer Update ( September 2018)	Internal Audit Comments
		The information contained within each pipeline should be reviewed for accuracy. This review should be evidenced e.g. initials of reviewer, date reviewed.	Medium	Economic Development Officer	Sep-18		Internal Audit to follow up in October 2018

Internal Audit Performance

Performance Measures:

Performance Measure	2018/19 Quarter 2 Target	Position as at 25.9.18	Comments
Delivery of 2018/19 Audit Plan	40%	14% in relation to 2018/19 plan however time spent in Q1 completing six audits commenced in Q4 2017/18 resulting in delays in commencing Q2 audits. Planned audits are on track to achieve Q3 target.	Since the last update report, three final reports have been issued. This includes two reports relating to additional audits added to the plan in Q4 2017/18 and one report relating to the 2018/19 audit plan. In addition, compliance testing is substantially complete for two audits, one audit is in progress and two further audits are scheduled to commence in October 2018.
Percentage of Client Satisfaction with the Internal Audit Service	100%	N/A	Awaiting response for one client satisfaction questionnaire issued in September in relation to the 2018/19 audit plan.  Since the last update responses have been received in relation to two audit reviews from the 2017/18 audit plan indicating 100% client satisfaction in both cases.
Compliance with the Internal Audit Standards	Full	No significant gaps in compliance	
Compliance testing of completed recommendations	90%	100%	

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## Service Plan Actions:

Key Deliverables (Action)	Quarter 2 Milestone	Position as at 25.9.18
Review and update Health and Safety risk assessments to ensure risks to staff and customers are controlled.	Health and Safety Assessment updated with action plan for improvements where necessary	Review Completed June 2018
Conduct self-assessment audit of all office areas and support activities of the Business Improvement Team.	Conduct Q1 self-assessment audit and report findings to Business Improvement Team	Review completed June 2018
Complete audits as per risk based audit plan	Complete 40% of audit plan	Since the last update report, 3 final reports have been issued. This includes 2 reports relating to additional audits added to the plan in Q4 2017/18 and one report relating to the 2018/19 audit plan. In addition, compliance testing is substantially complete for 2 audits, one audit is in progress and 2 further audits are scheduled to commence in October 2018.
Quarterly progress reports to Audit and Governance Committee	Progress report to September A&GC	Progress report to be submitted to October 2018 A&GC
PSIAS compliant Annual Opinion report for presentation to June A&G Committee.	Prepare PSIAS compliant Annual Opinion report for presentation to June A&G Committee.	Presented to A & G Committee in July 2018.
A risk based annual audit plan for 2019/20 approved by 31 March 2019.	N/A	Not yet due.
Deliver a shared service that Blaby District Council want to continue to share	Manage a shared service which meets SLA requirements.	No issues to report.

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**NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL**

**AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 10 OCTOBER 2018**

Title of report	<b>SERVICE UPDATE - S106 INTERNAL AUDIT RECOMMENDATIONS</b>
Contacts	Councillor Nick Rushton 01530 412059 <a href="mailto:nicholas.rushton@nwleicestershire.gov.uk">nicholas.rushton@nwleicestershire.gov.uk</a>  Planning Policy Team Manager 01530 454677 <a href="mailto:ian.nelson@nwleicestershire.gov.uk">ian.nelson@nwleicestershire.gov.uk</a>
Purpose of report	To outline for members the progress which has been made to implement the recommendations of the Audit review relating to monitoring of Section 106 agreements
Council priorities	Value for money Homes and communities
Implications:	
Financial/Staff	The monitoring of S106 Agreements is managed in the Planning Policy team. Additional staff resource has recently been agreed.
Link to relevant CAT	None
Risk Management	Monies received as part of S106 Agreements normally have to be spent within a specified period. It is important that the spending of such monies be monitored to avoid a situation where the money has to be paid back to the developer/applicant.
Equalities Impact Screening	None discernible
Human Rights	None discernible
Transformational Government	Not applicable
Consultees	None
Background papers	None
Recommendations	<b>THAT THE COMMITTEE NOTES:</b>

	<p><b>(I) THE PROGRESS MADE TO DATE ON IMPLEMENTING THE RECOMMENDATIONS OF THE AUDIT REPORT IN RESPECT OF MONITORING OF S106 AGREEMENTS;</b></p> <p><b>(II) THE PROPOSALS TO MAKE FURTHER IMPROVEMENTS IN RESPECT OF THE MONITORING OF S106 AGREEMENTS</b></p>
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**1.0 INTRODUCTION**

- 1.1 At a meeting of this Committee on 25 July 2018 members expressed some concerns regarding the progress being made against a number of actions identified in the Audit report of September 2017 in respect of the management of s106 agreements.
- 1.2 This report provide members with an update on progress against the various recommendations and outlines additional steps being undertaken to provide further improvements.

**2.0 BACKGROUND**

- 2.1 The monitoring of S106 Agreements is undertaken by the Planning Policy team having been transferred from the Environmental Protection service in December 2016.
- 2.2 At the time that this took place the Planning Policy engaged in the preparation for and undertaking of the Local Plan Examination. The Examination ended in late March 2017 and this provided an opportunity to start to review where the Council was in terms of the monitoring of S106 Agreements and what steps needed to be taken to provide a robust and efficient service.
- 2.3 To assist with this it was agreed that a review be undertaken by the Council’s Internal Audit Service. This reported to a meeting of this committee on 27 September 2017.
- 2.4 Perhaps not surprisingly in view of the limited amount of time which had been available since the transfer to the Planning Policy team the audit review found “*numerous issues in relation to how the process is currently managed*”.
- 2.5 A series of recommendations were made which were designed to shape a fit for purpose service.

**3.0 PROGRESS AGAINST AUDIT REPORT RECOMMENDATIONS**

- 3.1 The Audit Report identified 17 recommendations. Progress against each recommendation is summarised at Appendix A of this report.
- 3.2 The Audit report included a number of target dates for implementing the improvements. Once work had started on implementing the Audit Action Plan it became clear that the amount of work involved was significantly greater than had been anticipated. However, from Appendix A it can be seen that most of the recommendations have been addressed. Compared to the position when the management of S106 Agreements was handed over, significant progress has been (and continues to be) made.

3.3 Additional information in connection with various aspects of the recommendations are considered in more detail below.

#### **4.0 RESOURCES (RECOMMENDATION NUMBER 1)**

4.1 The progress to date is in part due to the fact that it has been possible to provide some dedicated resource (3 days per week) and that the person concerned has experience of undertaking similar work elsewhere. It is fair to say that without this previous experience it is likely that progress would not have been so significant.

4.2 More information regarding the work undertaken to date is outlined in the following sections. However, on a day-to-day basis it should be noted that much of the work is in response to queries from a range of stakeholders such as developers, parish councils and members of the public. In addition, many requests are also received which are of an historical nature which will involve spending time on research (e.g. have all the requirements of a particular s106 been discharged). On average it is estimated that 2 new requests are received every day. The time required to deal with these requests, which in view of the fact that this is very much the public facing aspect of S106s and are therefore considered to be a priority, impacts on the amount of time available for other, longer term work such as that outlined below.

4.3 It should also be appreciated that the Planning Policy team is currently seeking to progress work on a review of the Local Plan together with a document which identifies sites for Gypsies and Travellers. Therefore, dealing with such queries and other S106 work has a knock on effect to the resource available for this other work.

4.4 Following a recent review it has been agreed to create a new full time Senior Planning Officer in the Planning Policy team to deal with S106 work. It is hoped to have recruited to this post by the end of this year.

#### **5.0 GUIDANCE NOTES (RECOMMENDATION NUMBER 2 AND 15)**

5.1 A number of guidance notes have been prepared as outlined at appendix A. These are largely for internal purposes so as to ensure that there are agreed processes in place. However, a number of templates have also been prepared for correspondence with other organisations throughout the S106 process from the moment a new S106 Agreement is in place until completion of a particular provision in a S106.

5.2 For example, when a new S106 Agreement is completed a letter is sent to any organisation (e.g. a parish council or the Clinical Commissioning Group) to whom a particular provision in the S106 Agreement applies (e.g. taking over responsibility for an open space or provision of additional healthcare facilities at a surgery). The notification identifies what is provided for and the timescales within which any funding will need to be spent. In this way the receiving organisation can start to plan ahead. This has recently been implemented and it is intended that when the funding is then received in accordance with any triggers a further notification will be sent which confirms not only the receipt of the funds but also the date by which they need to be spent.

5.3 In this way the Council can ensure that the necessary steps are being taken to utilise any S106 monies.

## **6.0 DATABASE (RECOMMENDATION NUMBERS 5 AND 7)**

- 6.1 The Audit Report makes a number of references to 'database' and Recommendation 7 specifically states that *"As the expectation is ultimately to upload this document or a document reliant on the accuracy of this information to the NWLDC website it should be in a format that is clear and easily understood"*.
- 6.2 Therefore, the initial priority in the work undertaken was to ensure that comprehensive, up-to-date and correct information is held on all S106 Agreements as limited information was provided at the handover. In total there are over 450 S106 Agreements dating back to the early 2000's (and this number increases all the time with 84 new agreements in 2017 and 52 to date in 2018).
- 6.3 Officers have looked at example 'databases' from elsewhere, some of which were bespoke and some were off the shelf packages, and concluded that in view of the large volume of S106 Agreements and their complexity that use of tools such as spreadsheets or a traditional databases (such as Access) would not be conducive to providing information *"that is clear and easily understood"*. Furthermore it would also be resource intensive to prepare. Instead the approach taken has to been to create a 'database' system of site folders to store all information relating to any S106 Agreements, including a copy of the agreement (and any variations) and any correspondence. For each site an 'overview sheet' has been prepared which provides a simple summary of what the provisions are in the s106 Agreement. An example of this is set out at Appendix B of this report.
- 6.4 It is intended that these overview sheets will provide the basis for information published on the Council's website (some of the information on the Overview Sheet is for internal use and so will not be included on those placed on to the website).
- 6.5 Each overview sheet needs to be checked to make sure it is accurate but an initial tranche of the currently active (i.e. being built) major housing sites (10 or more dwellings) across the district will be published by the end of 2018 together with those major sites where development has yet to commence. By the end of quarter 4 2018/19 the intention is to publish information about all other sites which are currently active or where development has yet to start (subject to being able to address the resource issues outlined above).

## **7.0 MONITORING (RECOMMENDATION NUMBER 10)**

- 7.1 All S106 Agreements will include some form of trigger for when a particular provision in an agreement is due to be paid. Some of these may be before development commences whilst others may be at different stages in a development (e.g. prior to the completion of xx dwelling or prior to the occupation of xx dwelling). Different provisions in the same s106 Agreement may have different triggers.
- 7.2 With the Overview Sheets in place it is clear what the various triggers are. At the present time there are over 20 major sites which in the process of being developed whilst another 20+ sites have planning permission. The number of sites and the great variety in the respective triggers means monitoring progress on sites on an ongoing (e.g. monthly, weekly or daily) basis is not realistic. However, officers in Planning Policy update information regarding progress on housing sites twice a year (April and October) as part of

ongoing monitoring of housing provision. Therefore, an initial trial has taken place as part of this monitoring of housing sites whereby information regarding the status of a site is then compared to the requirements in a S106 to ascertain whether a trigger has been met or not.

- 7.3 As a result of this a number of invoices have been issued for developments where triggers have been met. This suggests that the procedures are appropriate but capacity issues to date, together with a need to concentrate resources on ensuring that all the necessary information regarding s106 Agreements is held and correct, means that there was still a time delay. It is anticipated that through time this will be less of an issue.
- 7.4 It should be noted that the monitoring undertaken focusses upon those provisions for which the District Council will be responsible, either as the body who will implement a provision or the body who will hold any monies and be responsible for signing off expenditure. Leicestershire County Council are responsible for a variety of functions which may be the subject of provisions in a S106 Agreement (e.g. education, civic amenities etc) but as the County Council are (normally) a signatory any monies are paid directly to them and they have their own resource provisions in place to monitor S106s.
- 7.5 A significant area of work that will need to be undertaken is in terms of looking at sites which have now been completed to ascertain whether there are any outstanding contributions required. This is likely to be resource intensive and so it will focus upon the most recently completed developments and work backwards. By way of illustration for the period going back to 2011 there are about 50 major sites where development has been completed, there will also be a significant number of smaller sites as well which need to be checked. The appointment of the new Senior Planning Officer would greatly help with this in terms of the time available.
- 8.0 MANAGING THE IMPLEMENTATION OF S106 PROVISIONS (RECOMMENDATIONS 9, 15 AND 17)**
- 8.1 The Audit report identified a lack of records in terms of how S106 funds were being used and recorded. The report referred to 'grant applications' which is somewhat misleading as the provisions of S106 Agreements are not open for applications as they have already been agreed as part of the S106.
- 8.2 Once funding has been received it is the responsibility of the organisation (in the case of the District Council this will be a specific service area) named in the S106 Agreement to implement the necessary provision within any timescales specified in the Agreement (normally, although not exclusively, 5 years from receipt of monies). As noted (see comments under Guidance Notes) processes are in place to inform organisations of new S106 Agreements and when monies have been received. It is also intended that on a quarterly basis all external originations will be provided with an update of what S106 provisions they are responsible for and time scales for getting the monies spent.
- 8.3 Internally, these matters are picked up as part of the Council's Asset Management Group.
- 8.4 A spreadsheet is being prepared of all 'projects' which are to be funded by S106 Agreements. This will then be used to monitor progress.

## **9.0 OTHER MATTERS**

9.1 In addition to the task outlined above, work has been undertaken to assist other organisations with implementation and management of various projects. For example:

- Assistance has been given to Heather Parish Council to get permission from a developer to enable them to continue with a project even though it was outside of the specified timescales.
- Measham Parish Council have been helped to get approval from a developer for a scheme on a play area which was more than had been envisaged in the S106 Agreement.
- Work is ongoing with another Parish Council who are in receipt of funds which they had plans for but where due to the proposed route of HS2 these plans are now in doubt.
- Contact was made with a developer to get their support to bring forward funding in advance of the triggers specified in the S106 Agreement.
- The Planning Policy Team Manager meets with a representative of the West Leicestershire Clinical Commissioning Group on a quarterly basis to ensure that progress is made on health related projects.

9.2 As at 19 July 2018 the Council was holding £3,935,711.90 to be spent by Council services of which about £2,600,000 was for affordable housing.

9.3 The overall amount of S106 monies currently held by the Council (including that held on behalf of other organisations until it is committed/spent) was £7,294,572.70.

## S106 AUDIT REPORT – UPDATE AGAINST RECOMMENDATIONS (AUGUST 2018)

RECOMMENDATION NUMBER	RECOMMENDATION	UPDATE
1	<p>Responsibility for the recording and monitoring of S106 agreements should be formally assigned to an individual / team. In order to have a system that is fit for purpose consideration should be given to providing a dedicated resource that can focus on designing and implementing a system that can effectively manage this process.</p>	<p>Responsibility for recording and monitoring of S106 Agreements lies with the Planning Policy team.</p> <p>A Senior Planning Officer (who has previously had experience of S106 monitoring) works 3 days per week on S106 issues (remaining 2 days are dedicated to work associated with Local Plan review).</p> <p>A temporary resource was employed for a period in 2017 to help compile information on all S106 Agreements.</p> <p>As part of a review of Planning Service it has been decided that a further Senior Planning officer post will be created which will be dedicated solely to S106 work. The process for recruitment will take place in the autumn. If successful it is likely to be the end of 2018 before the appointed person is in place.</p>
2	<p>The current guidance notes require further improvement to clearly show what should happen at each stage of the process and the individual / team responsible. There are a number of areas which would also benefit from having written procedures, as a minimum these should cover:</p> <ul style="list-style-type: none"> <li>• Registering / recording of S106 agreements</li> <li>• Monitoring of triggers and action points</li> </ul>	<p>The following guidance/procedural notes have been prepared:</p> <ul style="list-style-type: none"> <li>• Registering of new s106 agreements</li> <li>• Monitoring of developments/S106 agreements</li> <li>• Raising invoices</li> <li>• How to do indexation</li> <li>• Requests to release funding</li> <li>• Various templates for correspondence (e.g. notifying organisations (e.g. a parish council) that a new S106 Agreements is in place; notification of receipt of funds attached to a S106 Agreement; reminder to an organisation that S106 funds are due to be spent )</li> </ul> <p>The following guidance notes are in the process of being prepared</p> <ul style="list-style-type: none"> <li>• How to deal with enquiries regarding discharge of S106 provisions - work in progress</li> <li>• Requests for funding via S106 – information on website to be updated</li> </ul>

	<ul style="list-style-type: none"> <li>• Raising invoices and monitoring of payment</li> <li>• Grant applications and approval process</li> <li>• Action to be taken when obligations not met</li> </ul>	
3	The date that the S106 agreement is input to the S106 database should be recorded. Consideration should be given as to how soon the S106 database should be updated following receipt of the S106 agreement and built into the procedure notes.	<p>Schedule maintained of when S106 Agreements are logged.</p> <p>Guidance note for logging new agreements identifies that this should be done within 5 working days of receipt of new agreement.</p> <p>Due to capacity issues this is not currently being achieved. The recruitment of an additional Senior Planning Officer should address this.</p> <p>All S106 Agreements logged up to mid-June 2018</p>
4	For ease of future reference the Strong Room Register reference allocated to the S106 agreement should also be recorded on the S106 database.	This is recorded on an Overview sheet for each site
5	The details from the S106 agreement entered onto the S106 database should be sufficient to enable effective monitoring of actions and triggers associated with the agreements.	<p>Overview sheet completed for each site which identifies the various provisions and triggers.</p> <p>See comments in main report in section 6 regarding database.</p>
6	Where checks are undertaken	Agreed that checks are not necessary



	<p>of the input of the S106 agreement these should ensure that all the required information has been input. Consideration should also be given as to whether the checking of input to the S106 database is actually necessary.</p>	
7	<p>It may be worth considering whether the S106 database in its current format provides the most efficient way of recording and monitoring the system. As the expectation is ultimately to upload this document or a document reliant on the accuracy of this information to the NWLDC website it should be in a format that is clear and easily understood.</p>	<p>See comments in main report (section 6)</p>
8	<p>Planning Policy should give consideration as to how satisfied they are that the S106 database contains all of the agreements that it needs to and whether future reconciliations between the Strong Room Register and S106 database would be useful.</p>	<p>Information from the Strong Room Register has been cross referenced to information held with Planning Policy to ensure that all agreements are available.</p>

9	Where other departments retain records of S106 agreements for their own purposes regular liaison meetings should be held with the department and Planning Policy to ensure that information held by all parties agrees.	<p>A report is presented to the Council's Asset Management Group on a quarterly basis which identifies those S106 funds held by and for the use of the Council. All of the main budget holders with responsibility for utilising S106 monies are part of the Asset Management Group.</p> <p>A traffic light system is used to highlight whether funds are to be spent within 1 year (red), 2 years (amber) and 3 years (green).</p> <p>See further details in main report (section 7)</p>
10	Processes should be in place to effectively monitor S106 actions and trigger points so that the Council is proactive in invoicing developers rather than reactive. The offer from the Legal Services Team Manager to prepare a 'briefing note' to the Head of the Leicestershire Revenues and Benefits Partnership in relation providing information on the occupation dates of new properties should be acted on as soon as possible.	<p>Guidance notes on monitoring of S106 Agreements prepared. See further details in main report (section 7)</p> <p>Legal Services Team Manager advised Leicestershire Revenues and Benefits Partnership in relation providing information on the occupation dates of new properties. Advice acknowledged.</p>
11	Invoices should be raised as soon as possible in respect of the Off Site Affordable Housing monies due for Planning Ref: 12/00646/FULM and 14/00775/FULM. Further details in connection with these have been provided to the Planning Policy and	<p>Payment against 12/00646 received in May 2017</p> <p>Payment against 14/00775 received in November 2016.</p>

	Business Focus Manager.	
12	The cost of subscribing to RICS to obtain RICS BCIS indexation figures should be explored and a decision made as to whether the subscription should be obtained. If the RPI is to continue to be used for all future calculations Legal Services should be consulted to ensure that S106 agreements reflect this.	Subscription to BCIS indexation purchased and guidance note on how to do indexation in place.
13	When issuing invoices for payment of S106 obligations details of how the invoice has been calculated and the indexation used in the calculation should also be provided. The initial invoice calculations should be carried out by officers in Planning Policy with the role of the Senior Accountant being to check the calculations for accuracy.	Templates in place and agreement with Senior Accountant to do check prior to issuing.
14	Officers in Planning Policy should be provided with access to the Debtors system to monitor payments made. Where access is already available to the Debtors system it should be confirmed that staff understand how to	Whilst access to the debtor system in place it has been agreed that Planning Policy receive on a monthly basis a copy of spreadsheet maintained by Senior Accountant which provides up-to-date information in terms of S106 funds held by the Council.

	use this and where not that relevant training is sought.	
15	Records should be maintained which show the intended recipient of S106 funding, amount due, purpose of funding and date which the funding is to be spent by. There should be a facility whereby the recipient is prompted of funding available on a periodic basis (this information should have been agreed first with the other Council departments that also hold information).	Standard notification templates in place to advise intended recipients that: <ul style="list-style-type: none"> <li>• a new S106 Agreement is in place of relevance to them;</li> <li>• monies have been received that they are identified as being responsible for</li> </ul> See further details in main report (section 5)
16	The Request to Release S106 Form should be reviewed to ensure it captures explicitly the reasons for approval or rejection.	Form reviewed and amended
17	Completed grant applications should be numbered and a record kept of their location should reference to these be required in the future	Issue of managing grant applications and projects to be addressed.  See further details in main report (section 8)

## APPENDIX B

### Overview sheet

Parent Application					
Application reference					
Site Address					
Application Description					
Legal Agreement Type		Strongroom Reference		Dated	

LA type should be either s52, s106 or Unilateral Undertaking

Amending Agreement					
Application reference					
Site Address					
Application description					
Legal Agreement Type		Strongroom Reference		Dated	
Notes					

LA type could be Deed of Variation, Supplemental Deed, Deed of Release etc – check the front cover of the document

Applications with no agreements	
Application reference	
Site Address	
Application description	
Notes	

### Summary of Contributions

Contribution Details	On/Off Site	Triggers	Contribution Notes
Affordable Housing			
Play/Open Space			
River Mease			
National Forest			
Health			
Police			
Monitoring			
Education			
Highways			
Libraries			
Civic Waste			

Indexing and Interest Provisions	
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Indexing			
Calculation	(AxC)/B A=Bx(C/D)	Index	RPI / BCIS *
Interest			
Payable	Yes / No*	Terms	

\* delete as appropriate

History Schedule		
<i>Amendment</i>	<i>Initial</i>	<i>Date</i>
Sheet created		

**NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL**

**AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 10 OCTOBER 2018**

Title of report	<b>TREASURY MANAGEMENT ACTIVITY REPORT APRIL TO AUGUST 2018</b>
Contacts	<p>Councillor Nick Rushton 01530 412059 <a href="mailto:nicholas.rushton@nwleicestershire.gov.uk">nicholas.rushton@nwleicestershire.gov.uk</a></p> <p>Head of Finance / S151 Officer 01530 454707 <a href="mailto:tracy.bingham@nwleicestershire.gov.uk">tracy.bingham@nwleicestershire.gov.uk</a></p> <p>Finance Team Manager / Deputy S151 Officer 01530 454492 <a href="mailto:anna.wright@nwleicestershire.gov.uk">anna.wright@nwleicestershire.gov.uk</a></p>
Purpose of report	To inform Members of the council's Treasury Management activity undertaken during the period April to August 2018.
Council priorities	Value for Money
Implications:	
Financial/Staff	Interest earned on balances and interest paid on external debt, impact on the resources available to the council.
Link to relevant CAT	Could impact on all corporate action teams
Risk Management	Borrowing and investment both carry an element of risk. This risk is mitigated through the adoption of the Treasury and Investment Strategies, compliance with the CIPFA code of treasury Management and the retention of Treasury Management advisors (Arlingclose) to proffer expert advice.
Equalities Impact Screening	Not Applicable
Human Rights	Not Applicable
Transformational Government	This relates to the new ways in which Councils are being asked to deliver their services
Comments of Head of Paid Service	

Comments of Section 151 Officer	
Comments of Monitoring Officer	
Consultees	
Background papers	<a href="#">Treasury Management Strategy Statement 2018/19</a> – Council 27 February 2018.
Recommendations	<b>THAT MEMBERS APPROVE THIS REPORT AND COMMENT AS APPROPRIATE.</b>

## 1.0 BACKGROUND

- 1.1 Treasury Management activity is underpinned by CIPFA’s Code of Practice on Treasury Management (“the code”), which requires local authorities to produce Prudential Indicators and a Treasury Management Strategy Statement annually on the likely financing and investment activity.
- 1.2 As a minimum, the code requires that the council reports on the performance of the Treasury Management function at least twice yearly (mid-year and at yearend). This is the first of three in-year reports to be presented in 2018/19, to inform Members of the council’s treasury activity and enable scrutiny of activity and performance.
- 1.3 The council’s current Treasury Management Strategy Statement which includes the Borrowing Strategy; Debt Rescheduling Strategy; Annual Investment Strategy; Apportionment of Interest Strategy; Prudential Indicators and Annual Minimum Revenue Provision was approved by Council on 27 February 2018. Attached as Appendix C for reference.
- 1.4 Investing or borrowing activities expose the council to financial risks including the loss of invested funds and revenue effects of changing interest rates. The successful identification, monitoring and control of risks are therefore central to the council’s Treasury Management strategy.

## 2.0 THE UK ECONOMY AND OTHER FACTORS

- 2.1 An economic and interest rate forecast that has been provided by our treasury advisors (Arlingclose) from the Monetary Policy Committee minutes, provided below.

The Bank of England’s Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting ending on 12 September 2018, the MPC voted unanimously to maintain Bank Rate at 0.75%. The Committee voted unanimously to maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at £10 billion. The Committee also voted unanimously to maintain the stock of UK government bond purchases, financed by the issuance of central bank reserves, at £435 billion.



In the MPC's most recent economic projections, set out in the August Inflation Report, GDP was expected to grow by around 1¾% per year on average over the forecast period, conditioned on the gently rising path of Bank Rate implied by market yields at that time. Although modest by historical standards, the projected pace of GDP growth was slightly faster than the diminished rate of supply growth, which averaged around 1½% per year. With a very limited degree of slack remaining, a small margin of excess demand was therefore projected to emerge by late 2019 and build thereafter, feeding through into higher growth in domestic costs than has been seen over recent years. The contribution of external cost pressures, which has accounted for above-target inflation since the beginning of 2017, was projected to ease over the forecast period. Taking these influences together, and conditioned on the gently rising path of Bank Rate, CPI inflation remained slightly above 2% through most of the forecast period, reaching the target in the third year.

Recent news in UK macroeconomic data has been limited and the MPC's August projections appear to be broadly on track. UK GDP grew by 0.4% in 2018 Q2 and by 0.6% in the three months to July. The UK labour market has continued to tighten, with the unemployment rate falling to 4.0% and the number of vacancies rising further. Regular pay growth has risen further to around 3% on a year earlier. CPI inflation was 2.5% in July.

The global economy still appears to be growing at above-trend rates, although recent developments are likely to have increased downside risks around global growth to some degree. In emerging market economies, indicators of growth have continued to soften and financial conditions have tightened further, in some cases markedly. Recent announcements of further protectionist measures by the United States and China, if implemented, could have a somewhat more negative impact on global growth than was anticipated at the time of the August Report. The MPC continues to recognise that the economic outlook could be influenced significantly by the response of households, businesses and financial markets to developments related to the process of EU withdrawal. Since the Committee's previous meeting, there have been indications, most prominently in financial markets, of greater uncertainty about future developments in the withdrawal process.

### 3.0 THE COUNCIL'S TREASURY POSITION.

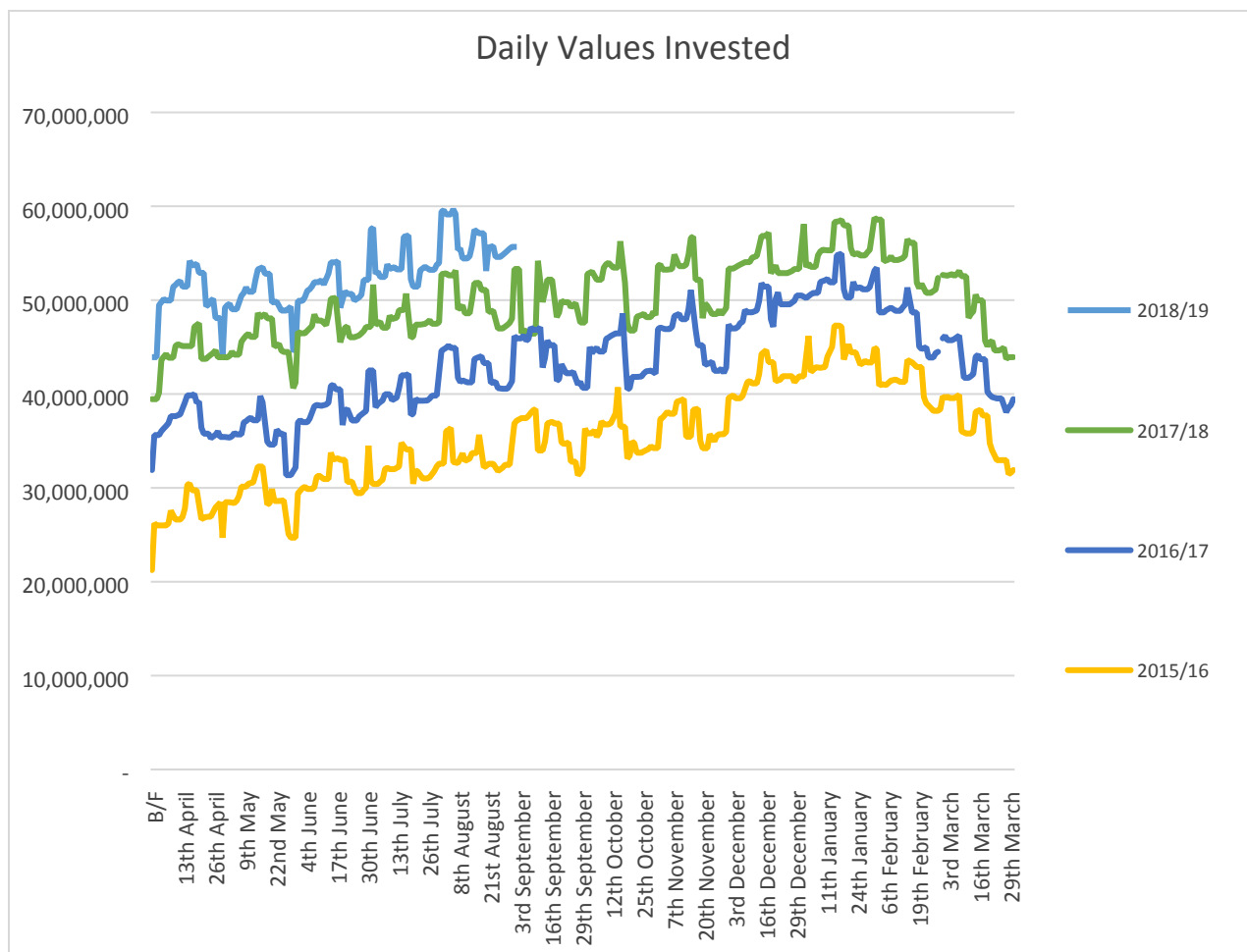
3.1 The council's current strategy is to use internal borrowing to reduce risk and keep interest costs low. The treasury management current position and the change over the reporting period is shown below.

	<b>Balance at 01/04/18 £m</b>	<b>Net Movement £m</b>	<b>Balance at 02/09/2018 £m</b>
Long term borrowing - HRA	£74.0	£0	£74.0
Long term borrowing – General Fund	£8.4	£0	£8.4
Other long-term liabilities - HBBC	£0.1	£0	£0.1

<b>Total Borrowing</b>	<b>£82.5</b>	<b>£0</b>	<b>£82.5</b>
Long term investments – greater than 1 year	£12.0	(£2.5)	£9.5
Short term investments – less than 1 year	£29.3	£9.8	£39.1
Pooled funds and externally managed investments*	£2.6	£4.4	£7.0
<b>Total Investments</b>	<b>£43.9</b>	<b>£11.7</b>	<b>£55.6</b>
<b>Net debt</b>	<b>£38.5</b>	<b>(£11.7)</b>	<b>£26.9</b>

\*Money Market Funds

- 3.2 The investment position varies throughout the year as it is dependent upon cash flow. Examples of significant areas that can impact on cash flow are collection of Council tax, business rates, grants, and capital receipts, payments to other precepting authorities or central government and interest on treasury activity.
- 3.3 In the period April 2018 to August 2018, the capacity for investment has increased by £11.7m. The volatility of balances is normal throughout the year and a number of factors contribute to this during the financial year:
- a) The council (as it typically does) has benefit from the receipt of Council Tax and Business Rates during the first ten months of the financial year whilst revenue expenditure is more evenly weighted throughout the financial year;
  - b) Capital expenditure is more heavily weighted towards the latter part of the financial year due to the time required to schedule programmes of work or award contracts.
  - c) The patterns of income and expenditure are variable and are compared to previous years. The current patterns are in line with the expected trends. These patterns are reflected in the council's cash flow projections which is monitored and revised daily as part of the treasury management process.
- 3.4 The value of investments per day is represented in the table below, illustrating the cash flow trends throughout the year. The cash flows for the period are in line with the anticipated trend.



#### 4.0 BORROWING ACTIVITY

- 4.1 The council's Borrowing Strategy 2018/19, incorporates a prudent and pragmatic approach to borrowing to minimise borrowing costs without compromising the longer-term stability of the portfolio, consistent with the council's Prudential Indicators.
- 4.2 The council's estimated borrowing requirement for 2018/19 is £2.29m. In the two subsequent years, this is estimated to be £10.702m in 2019/20 and £8.989m in 2020/21, as reported in the Treasury Management Strategy Statement.
- 4.3 The council has not undertaken any new long-term borrowing during the period as the levels of cash balances held have meant that we are currently able to use internal borrowing.
- 4.4 The council has two PWLB annuity loans as part of the self-financing of the HRA. The repayment element for these in 2018/19 is £1.103m.
- 4.4 During the reporting period of April to August 2018, the council's cash flow remained positive and did not require any temporary loans.

#### 5.0 DEBT RESCHEDULING ACTIVITY

5.1 The council's Debt Rescheduling Strategy 2018/19 establishes a flexible approach where the rationale for rescheduling could be one or more of the following:

- Savings in interest costs with minimal risk.
- Balancing the volatility profile (i.e. the ratio of fixed to variable rate debt) of the debt portfolio.
- Amending the profile of maturing debt to reduce any inherent refinancing risks.

5.2 No opportunities for debt rescheduling were identified which conformed to the above rationale. Accordingly, the council has undertaken no debt rescheduling activity during the period.

5.3 The council's portfolio of thirteen loans - ten PWLB loans and three market loans - will continue to be monitored for debt rescheduling opportunities.

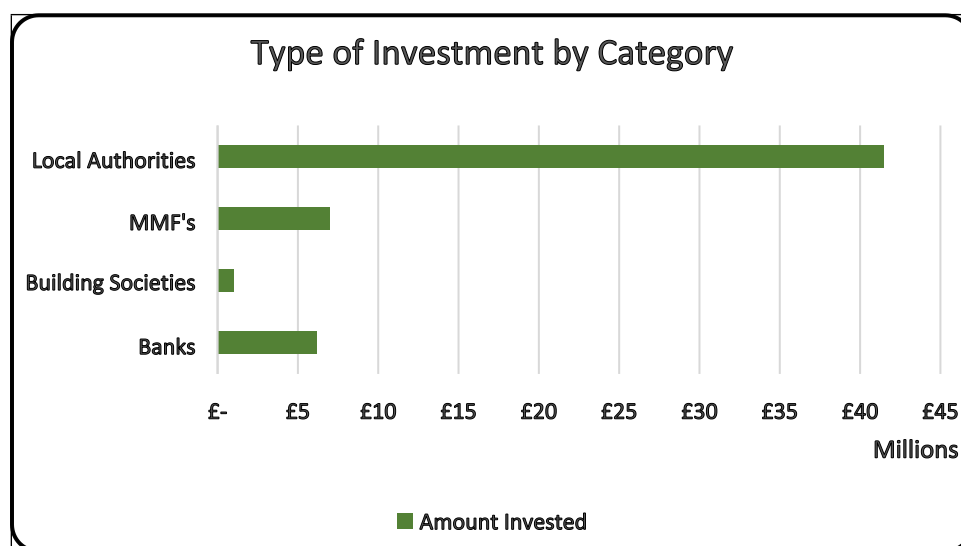
## 6.0 INVESTMENT ACTIVITY

6.1 The main objective of the council's Investment Policy and Strategy 2018/19 is to invest its surplus funds prudently.

6.2 The council's investment priorities are:

- security of the invested capital;
- sufficient liquidity to permit investments; and,
- Optimum yield which is commensurate with security and liquidity.

6.3 To lower the inherent investment risk, the council has minimised the use of banks and increased the use of other Local Authorities as investment counterparties. A range of lengths of investment, from overnight investments to short and long fixed term, from 32 days to 3 years, are currently utilised to ensure that the principles of security, liquidity and yield are followed. The table below shows the range of counterparties used by the council and the values currently invested.



- 6.4 The counterparties that the council currently use all meet the criteria set out in the Treasury Management Strategy Statement 2018/19 and are monitored by the Treasury Management Advisors. A detailed list of the counterparties used and amounts currently invested can be seen in Appendix A.
- 6.5 The average rate of return on the council's investment balances during the period was 0.63% (increased from 0.487% reported to members at Audit & Governance on 25 July 2018 in the Treasury management Stewardship report). For comparison purposes, the benchmark return (average 7-day London Interbank Bid Rate or LIBID rate) at the end of July 2018 was 0.36% and the average 7 day London Interbank Offered Rate (LIBOR) rate at the end of July 2018 was 0.49%. This shows that we are achieving a good rate of return against benchmark.
- 6.6 The council's treasury management advisors produce investment benchmarking quarterly. The latest available is based on June 2018. The total rate of return achieved by the council is compared to 57 other district councils and the average of 135 local authorities, the yield is itemised by types of investments. The internal investment return of the council of 0.63% is comparable to 0.66% achieved by 57 other district councils and 0.65% achieved by the average of 135 local councils. The full benchmarking summary can be seen in Appendix B.
- 6.7 Short and long term interest rates are rising marginally since the increase on the base rate by the Bank of England to 0.75% in August 2018. Our treasury advisors are forecasting that the base rate will remain low over the medium term. Interest rates achieved on the council's investments have started to see the base rate increase reflected in the rates of return as noted in paragraph 6.5.
- 6.8 There were 53 investments made during the period totalling £93.2m and 50 maturities totalling £80.9m. The average balance held for the period was £51.9m.
- 6.9 Of the investment and maturities, 17 were fixed term investments taken out during the period and 10 were fixed term investments that have matured during the period. The fixed term investments were for amounts ranging between £1m and £5m.
- 6.10 The council has budgeted to achieve £229,000 of income from its investment activity in 2018/19. Investment activity from April to August 2018 has achieved £258,825 in interest for the financial year. The current forecast that is estimated to be achieved is £282,115.
- 6.11 Of this total, an element is applied to balances held on external income. This external income largely represents balances from S106 contributions that have not yet been spent. The estimated amount forecast to be applied is approximately £15,284 subject to the balances remaining at the end of the financial year. There is no budget applied to this element as S106 contributions are only achieved when specific conditions are met and are anticipated to be spent.
- 6.12 The estimated remaining balance (£266,831) received on investment income is budgeted to be apportioned between General Fund and the Housing Revenue Account based on the

estimated cash flow position. For 2018/19, the budgeted investment income is apportioned as follows: £145,300 General Fund and £83,700 Housing Revenue Account. Any over or under achievement of interest is apportioned on this basis. The current budget and forecast is shown in the table below

	<b>Budget</b>	<b>Projected</b>
General Fund	£145,300	£169,304
HRA	£83,700	£97,527
<b>Sub-Total</b>	<b>£229,000</b>	<b>£266,831</b>
External Balances	£0	£15,284
<b>Total</b>	<b>£229,000</b>	<b>£282,115</b>


## 7.0 SUMMARY

- 7.1 In compliance with the requirements of the CIPFA code of practice, this report provides members with a summary report of the Treasury Management activity for the period April to August 2018. A prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.
- 7.2 For the period April to August 2018, the council can confirm that it has complied with its Prudential Indicators, which were approved by Council as part of the Treasury Management Strategy Statement.
- 7.3 For the reporting period, the council can confirm that it has complied with its Treasury Management practices.

## LIST OF COUNTERPARTIES, CURRENT INVESTMENT AND INTEREST RATE

<b>Counterparty</b>	<b>Length</b>	<b>Amount</b>	<b>Rate</b>
Goldman Sachs MMF	Overnight	2,200,000.00	0.58%
Blackrock MMF	Overnight	800,000.00	0.54%
Aberdeen Asset Management MMF	Overnight	3,000,000.00	0.60%
CCLA MMF	Overnight	1,000,000.00	0.64%
Lloyds Main	Overnight	33,457.23	0.65%
Bank of Scotland	Overnight	1,395,000.00	0.65%
Lloyds Notice Account	32 days	250,000.00	0.82%
Santander Notice Account	95 days	1,495,000.00	0.60%
Newcastle City Council	1093 days	2,500,000.00	1.13%
Lancashire County Council	730 days	2,000,000.00	0.55%
Liverpool City Council	640 days	2,000,000.00	0.65%
Northumberland County Council	1096 days	3,000,000.00	0.99%
Salford City Council	321 days	1,000,000.00	0.60%
Leeds City Council	276 days	3,000,000.00	0.60%
Thurrock Council	312 days	1,000,000.00	0.63%
Moray Council	275 days	2,500,000.00	0.82%
Stirling Council	185 days	1,500,000.00	0.75%
Lancashire County Council	183 days	2,000,000.00	0.78%
Thurrock Council	276 days	1,000,000.00	0.80%
Eastleigh Borough Council	277 days	1,500,000.00	0.70%
Thurrock Council	184 days	2,000,000.00	0.65%
Fife Council	184 days	1,500,000.00	0.60%
Lloyds Bank Fixed Term Deposit	185 days	1,500,000.00	0.75%
National Counties Building Society	98 days	1,000,000.00	0.62%
Blackpool Borough Council	184 days	2,000,000.00	0.60%
Thurrock Council	288 days	1,000,000.00	0.66%
Surrey Heath Borough Council	185 days	1,000,000.00	0.60%
Lancashire County Council	185 days	1,000,000.00	0.60%
Barclays Treasury Direct Facility	94 days	1,500,000.00	0.46%
Walsall Metropolitan Borough Council	238 days	5,000,000.00	0.60%
Rhondda Cynon Taff CBC	184 days	1,000,000.00	0.65%
Salford City Council	203 days	2,000,000.00	0.78%
Leeds City Council	247 days	2,000,000.00	0.80%
<b>Total</b>		<b>55,673,457.24</b>	

ADVISORS INVESTMENT BENCHMARKING



**Investment Benchmarking**  
30 June 2018

NW Leicestershire  
57 English Non-Met Districts Average  
135 LAs Average

	£52.2m	£26.1m	£62.0m
Internal Investments	£52.2m	£26.1m	£62.0m
Cash Plus & Short Bond Funds	£0.0m	£0.0m	£0.0m
Strategic Pooled Funds	£0.0m	£10.4m	£10.9m
<b>TOTAL INVESTMENTS</b>	<b>£52.2m</b>	<b>£37.3m</b>	<b>£72.8m</b>

Security			
Average Credit Score	4.30	4.37	4.46
Average Credit Rating	AA-	AA-	AA-
Average Credit Score (time-weighted)	3.82	4.12	4.21
Average Credit Rating (time-weighted)	AA-	AA-	AA-
Number of Counterparties / Funds	21	14	14
Proportion Exposed to Bail-in	43%	61%	62%

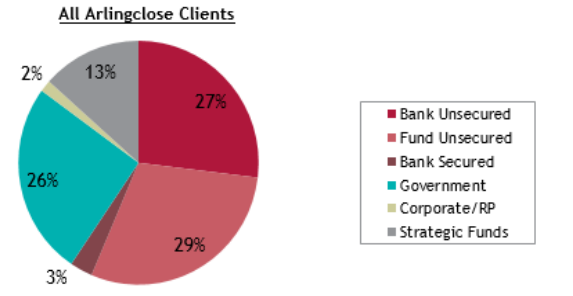
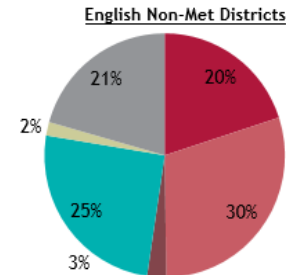
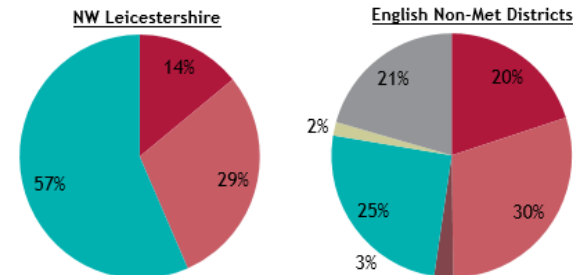
Liquidity			
Proportion Available within 7 days	32%	37%	42%
Proportion Available within 100 days	43%	53%	61%
Average Days to Maturity	130	98	42

Market Risks			
Average Days to Next Rate Reset	141	98	76
Strategic Fund Volatility	0.0%	2.4%	3.2%

Yield			
Internal Investment Return	0.63%	0.66%	0.65%
Cash Plus & Short Bond Fund Return	0.00%	0.51%	0.50%
Strategic Funds - Income Return	-	3.45%	3.34%
Strategic Funds - Capital Gains/Losses	-	0.49%	0.72%
Strategic Funds - Total Return	-	3.94%	4.05%
Total Investments - Income Return	0.63%	1.37%	1.13%
<b>Total Investments - Total Return</b>	<b>0.63%</b>	<b>1.51%</b>	<b>1.28%</b>



- Bank Unsecured
- Fund Unsecured
- Bank Secured
- Government
- Corporate/RP
- Strategic Funds

**Notes**

- Unless otherwise stated, all measures relate to internally managed investments only, i.e. excluding external pooled funds.
- Averages within a portfolio are weighted by size of investment, but averages across authorities are not weighted.
- Credit scores are calculated as AAA = 1, AA+ = 2, etc.
- Volatility is the standard deviation of weekly total returns, annualised.



**NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL**

**COUNCIL – TUESDAY, 27 FEBRUARY 2018**

Title of report	<b>THE TREASURY MANAGEMENT STRATEGY STATEMENT 2018/19 AND PRUDENTIAL INDICATORS 2018/19 TO 2020/21</b>
Contacts	<p>Councillor Nick Rushton 01530 412059 <a href="mailto:nicholas.rushton@nwleicestershire.gov.uk">nicholas.rushton@nwleicestershire.gov.uk</a></p> <p>Chief Executive 01530 454500 <a href="mailto:bev.smith@nwleicestershire.gov.uk">bev.smith@nwleicestershire.gov.uk</a></p> <p>Head of Finance/Section 151 Officer 01530 454707 <a href="mailto:tracy.ashe@nwleicestershire.gov.uk">tracy.ashe@nwleicestershire.gov.uk</a></p>
Purpose of report	To seek approval of the Treasury Management Strategy Statement, the prudential indicators and the Annual Minimum Revenue Provision Statement.
Council Priorities	Value for Money
Implications:	
Financial/Staff	Interest earned on balances and interest paid on external debt, impact on the resources available to the Authority.
Link to relevant CAT	Could impact upon all CAT's.
Risk Management	Borrowing and investment both carry an element of risk. This risk is moderated through the adoption of the Treasury and Investment Strategies, compliance with the CIPFA code of Treasury Management and the retention of Treasury Management Advisors (Arlingclose) to proffer expert advice.
Equalities Impact Screening	Not applicable.
Human Rights	Not applicable.
Transformational Government	Not applicable.
Comments of Head of Paid Service	The report is satisfactory
Comments of Section 151 Officer	As author, the report is satisfactory
Comments of Deputy	The report is satisfactory

Monitoring Officer	
Consultees	The Authority's Treasury Advisor; Corporate Leadership Team;
Background papers	Treasury Management Strategy Statement 2018/19 – <a href="#">report</a> and <a href="#">minutes</a> of Cabinet on Tuesday, 6 February 2018
Recommendations	<b>THAT COUNCIL APPROVES THE TREASURY MANAGEMENT STRATEGY STATEMENT 2018/19, PRUDENTIAL INDICATORS -REVISED 2017/18 AND 2018/19 TO 2020/21-AND THE ANNUAL MINIMUM REVENUE PROVISION STATEMENT</b>

## 1.0 INTRODUCTION

- 1.1 Local Authorities are required to approve a treasury management strategy statement (TMSS) and an investment strategy before the start of each financial year, in line with the Chartered Institute of Public Finance and Accountancy's 'Treasury Management in the Public Services Code of Practice 2011 Edition (the CIPFA Code) and the Department for Communities and Local Government (DCLG) revised 'Guidance on Local Authority Investments' 2010.
- 1.2 CIPFA have responsibility for the Treasury Management Code of Practice and Prudential Code and have consulted on these in 2017 and revised codes were published in December 2017. The Department for Communities and Local Government is responsible for preparing the guidance on Local Authority Investments and the guidance on Minimum Revenue Provision.
- 1.3 In accordance with DCLG Guidance, the Authority will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this statement is based, change significantly; or if amendments to the codes and guidance arising from the consultations, require the Treasury Management Strategy Statement to be updated.
- 1.4 CIPFA has defined Treasury Management as: "the management of the organisation'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."
- 1.5 The TMSS and prudential indicators fulfil the Authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and DCLG Guidance.

The TMSS sets out:

- a. Background information used to determine borrowing and investment requirements (paragraphs 2.2 and 2.3).
- b. Organisational roles and responsibilities (paragraph 1.7).
- c. The role of the Authority's treasury advisor (paragraph 1.8).
- d. Reporting and monitoring of treasury management activity (paragraph 1.9).
- e. Borrowing and debt rescheduling strategies. Total Authority's interest payments on existing debt are estimated at £2,739,773 in 2018/19.
- f. Investment Strategy. Security of capital is the first and most important investment policy objective. Total investment income is estimated at £229,000 in 2018/19 (General Fund - £145,300, HRA - £83,700).

- g. Treasury Management and Prudential Indicators for 2018/19 to 2020/21. These are designed to monitor borrowing limits, debt levels and investment returns.
- h. Annual Minimum Revenue Provision Statement for 2018/19. General Fund MRP is estimated at £619,527.

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

1.6 The Authority is responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk are important and integral elements of treasury management activities. The main risks to the Authority's treasury activities are:

- Credit and Counterparty Risk (security of investments)
- Liquidity Risk (inadequate cash resources)
- Market or Interest Rate Risk (fluctuations in interest rate levels)
- Inflation Risk (exposure to inflation)
- Refinancing Risk (impact of refinancing on suitable terms)
- Legal & Regulatory Risk (failure to act in accordance with powers or regulatory requirements)

1.7 Organisational Roles and Responsibilities

In accordance with CIPFA guidance, the roles and responsibilities of the Authority's Treasury Management function are divided between several responsible officers and are summarised below:

Section 151 Officer – overall responsibility for the treasury management function to include:

Ensuring the organisation of the treasury management function is adequate to meet current requirements:

- Investment, borrowing and debt rescheduling decisions.
- Monitoring adherence to approved Treasury Management Strategy Statement.
- Regular reporting to Members on treasury management activity.

Finance Team Manager (Deputy Section 151 Officer) – ensuring that day to day treasury activities comply with the approved Treasury Management Strategy Statement.

Technical Accountant – identification of investment opportunities and borrowing requirements and acts as the Authority's interface with brokers and counterparties.

The needs of the Authority's treasury management staff for training in investment management, are assessed through the 'BEE Valued' staff appraisal process and additionally when the responsibilities of individual members of staff change.

Training courses, seminars and conferences provided by the Authority's treasury advisor or CIPFA, are regularly attended to refresh and enhance the knowledge of treasury management staff.

1.8 The Role of the Authority's Treasury Advisor

The Authority currently employs Arlingclose Ltd as treasury advisor to provide the following services; strategic treasury management advice, advice relating to Housing & Capital finance, leasing advice, economic advice and interest rate forecasting, debt

restructuring and portfolio review (structure and volatility), counterparty credit ratings and other creditworthiness indicators and training, particularly investment training, for Members and officers.

Arlingclose Ltd is authorised and regulated by the Financial Conduct Authority (FCA). Arlingclose Ltd is to provide the Authority with timely, clear and regular information about the financial sector to enable the Authority to take pro-active decisions which in turn, helps to minimise risk.

The quality of this service is monitored by officers on a regular basis, focusing on the supply of relevant, accurate and timely information across the services provided.

## 1.9 Reporting and Monitoring of Treasury Management Activity

The Treasury Management Stewardship Report for 2017/18 will be presented to the Audit and Governance Committee for scrutiny and then Cabinet as soon as possible after the end of the financial year. As in previous years, the Treasury Management Strategy Statement will be supplemented by in-year reporting of treasury management activity and monitoring of prudential indicators, to the Audit and Governance Committee during 2018/19.

This report, together with all other reports to Council, Cabinet and the Audit and Governance Committee are a public record and can be viewed on the Authority's website. This demonstrates compliance with DCLG Guidance on local government investments, which recommends that the initial strategy, and any revised strategy, should, when approved, be made available to the public free of charge, in print or online.

## 2.0 THE TREASURY MANAGEMENT STRATEGY STATEMENT 2018/19

2.1 The purpose of this Treasury Management Strategy Statement is to set out for approval

- The Borrowing Strategy 2018/19 (APPENDIX A)
- The Debt Rescheduling Strategy 2018/19 (APPENDIX B)
- The Annual Investment Strategy 2018/19 (APPENDIX C)
- The Apportionment of Interest Strategy 2018/19 (APPENDIX D)
- The Treasury Management and Prudential Indicators 2018/19 to 2020/21 (APPENDIX E)
- The Annual Minimum Revenue Provision (APPENDIX F)

2.2 External Factors. (Background Information provided by Treasury Advisors)

**Economic background:** The major external influence on the Authority's treasury management strategy for 2018/19 will be the UK's progress in negotiating its exit from the European Union and agreeing future trading arrangements. The domestic economy has remained relatively robust since the surprise outcome of the 2016 referendum, but there are indications that uncertainty over the future is now weighing on growth. Transitional arrangements may prevent a cliff-edge, but will also extend the period of uncertainty for several years. Economic growth is therefore forecast to remain sluggish throughout 2018/19.

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

raised official interest rates to 0.5% in November 2017.

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

**Credit outlook:** High profile bank failures in Italy and Portugal have reinforced concerns over the health of the European banking sector. Sluggish economies and fines for pre-crisis behaviour continue to weigh on bank profits, and any future economic slowdown will exacerbate concerns in this regard.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. In addition, the largest UK banks will ringfence their retail banking functions into separate legal entities during 2018. There remains some uncertainty over how these changes will impact upon the credit strength of the residual legal entities.

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

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

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

### 2.3 Outlook for UK Interest Rates:

The Authority's treasury advisor's current central case forecast for the UK Bank Rate is set out below.

Bank Rate %	March 2018	June 2018	Sept. 2018	Dec. 2018	March 2019	June 2019	Sept. 2019	Dec. 2019
Upside Risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25
<b>Arlingclose Central Case</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>
Downside Risk	0.00	0.00	0.00	0.00	-0.25	-0.25	-0.25	-0.25

The Authority's treasury advisor has forecast the Bank Rate to remain at 0.50% over the medium term.

### 3.0 IMPLICATIONS FOR TREASURY ACTIVITY

3.1 The economic outlook, the financial health of sovereign states, major banks and investment counterparties, still provide major challenges and risk for treasury activity, particularly investment activity, during the financial year.

3.2 The principles in the proposed suite of treasury policies remain broadly unchanged from previous years - borrowing will be prudent, minimize borrowing costs and maintain the stability of the debt maturity portfolio. Debt rescheduling should achieve interest savings, carry minimal risk and maintain the stability of the debt maturity portfolio.

Investments will be prioritised and based upon the principles of security, liquidity and yield.

#### **4.0 MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE (MIFID)**

4.1 The Markets in Financial Instruments Directive is the EU legislation that regulates firms who provide services to clients linked to 'financial instruments' (shares, bonds, units in collective investment schemes and derivatives), and the venues where those instruments are traded.

4.2 MiFID originally introduced three categories for clients of financial services firms, when dealing with regulated investments. These categories reflected the level of understanding of Financial Instruments required for: Retail Clients; Professional Clients and eligible counterparties. New rules come into effect from 3 January 2018 which mean that the Authority will be re-classified to 'Retail Client' from 'Professional Client' status.

4.3 This re-categorisation seeks to provide additional protections for retail clients by ensuring that financial services firms provide investments that are suitable for the client but will also limit the investment options available to the authority. With the agreement of the firm, a client can elect to move to a different category if it meets specified criteria.

4.2 The Authority has elected to 'opt-up' to Professional status so that it can continue to access the range of investment options that it currently has access to.

#### **5.0 FUTURE SIGNIFICANT EVENTS**

5.1 In November 2017, the Council decided to conduct a lawful procurement and subsequently [award a contract for the outsourced management of the Council's Hermitage and Hood Park leisure centre facilities and creation of a new £20m facility](#). At the time of writing this report, a procurement exercise is underway to secure an operator. The Council will retain ownership of both the existing and new assets, however from inception of the contract (anticipated April 2019), the new operator will be responsible for all capital improvement works. The maximum capital value of the new facility will be £19.475m and will be funded through a mixture of internal and external borrowing and capital receipts arising on the disposal of a Cropston Drive, one of the Council's remaining significant land holdings.

5.2 From time to time the authority will consider other service delivery models (for example shared service) and these will potentially affect the authority's balance sheet and treasury position. As at such time that these alternative delivery models are agreed and implemented, in line with paragraph 1.3 above which outlines that this strategy should be updated should the assumptions on which this statement is based alter significantly.

#### **6.0 THE AUTHORITY'S CURRENT BALANCE SHEET AND TREASURY POSITION**

6.1 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). Usable reserves and working capital are the underlying resources available for investment. The CFR, balances and reserves are the core drivers of Treasury Management Activity. The estimates, based on the current Revenue Budget and Capital Programmes, are set out below:

	31.03.17 Actual £m	31.03.18 Estimate £m	31.03.19 Forecast £m	31.03.20 Forecast £m	31.03.21 Forecast £m
General Fund CFR	14.4	16.1	17.8	27.8	35.7
HRA CFR	75.1	74.0	72.9	71.8	70.6
<b>Total CFR</b>	<b>89.5</b>	<b>90.1</b>	<b>90.7</b>	<b>99.6</b>	<b>106.3</b>
Less: External Borrowing	(83.4)	(82.3)	(81.2)	(80.1)	(79.0)
<b>Internal Borrowing</b>	<b>6.1</b>	<b>7.8</b>	<b>9.5</b>	<b>19.5</b>	<b>27.3</b>
Less: Usable Reserves	(21.3)	(23.4)	(22.7)	(22.7)	(20.7)
Less: Working Capital Estimate	0.3	0.3	0.3	0.3	0.3
<b>Investments (or New Borrowing)</b>	<b>14.9</b>	<b>15.3</b>	<b>12.9</b>	<b>2.9</b>	<b>(6.9)</b>

- 6.2 The Authority has an increasing General Fund CFR due to the use of borrowing to fund the Capital Programme, which includes the Leisure Services Project which was agreed at Council 21 November 2017.
- 6.3 The Leisure Project is scheduled for 2019/20 to 2020/21. In 2019/20 the Authority will be utilising internal borrowing. The effect of this is that there is less cash available for investment by 31 March 2020. By 31 March 2021, there is no availability for investment but there will be a requirement for borrowing.
- 6.4 The Authority's level of physical debt and investments is linked to the components of the Balance Sheet. Market conditions, interest rate expectations and credit risk considerations will influence the Authority's strategy in determining the borrowing and investment activity against the underlying Balance Sheet position. The Authority's short term strategy is to maintain borrowing and investments below their underlying levels (internal borrowing).

The following table shows the Investment and debt portfolio position:

	Portfolio as at 31 March 2017 £m	Portfolio as at 5 Jan 2018 £m	Average Rate as at 5 Jan 2018 %
External Borrowing:			
PWLB	74.987	74.451	3.340
Local Authorities	1.000	1.000	6.875
Banking Sector	3.940	3.940	4.740
LOBO Loans	3.500	3.500	4.800
<i>Total External Borrowing</i>	<i>83.427</i>	<i>82.891</i>	
Other Long Term Liabilities	0.112	0.112	3.140
<b>TOTAL GROSS EXTERNAL DEBT</b>	<b>83.539</b>	<b>83.003</b>	
Investments:			
Short Term - Managed in-house	24.349	31.325	0.374
Long Term - Managed in-house	12.000	12.000	0.900
Fund Managers-Managed Externally	0	0	
Pooled Funds-Managed Externally	3.100	10.200	0.170
<i>Total Investments</i>	<i>39.449</i>	<i>53.525</i>	
<b>NET DEBT</b>	<b>44.090</b>	<b>29.478</b>	

6.5 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. The Authority expects to comply with this recommendation during 2017/18.

## **7.0 THE COUNCIL'S APPROACH TO BEING COMMERCIAL**

7.1 The Investment Strategy included in Appendix C provides the strategic framework in which it's investment activity is undertaken.

7.2 In line with the Medium Term Financial Strategy 2018 – 2023, the Investment Strategy has been revised and updated to allow the flexibility required in adopting a commercial approach.

7.3 The Strategy provides Members with the flexibility to undertake differing forms of investments for the Council, including, but not limited to investment in property funds and investment in a Council owned company for the purposes of trading (such as a Local Housing Company). The strategy has been updated to reflect how the Authority may purchase property for non-treasury investments eg. the purchase of property for income generating activities. These key amendments provide members with the flexibility to undertake new forms of longer term investment.

7.4 It is important for members to note however, that at a time when the Council is due to invest some £19.5m into a new leisure facility for Coalville under the Sports and Leisure project, it is unlikely that any new significant investments will be undertaken utilising the Council's internal reserves.



**BORROWING STRATEGY 2018/19**

At the 31<sup>st</sup> March 2018, the Authority will hold loans totalling £82.3m (£73.9m HRA and £8.4m General Fund). This is a decrease of £1.1m on the previous year (£75m HRA and £8.4m General Fund) and is part of the Authority's strategy for funding previous years' Capital Programmes and for the self-financing of the HRA, which was presented to Cabinet on 13th March 2012 in the "Housing Revenue Account (HRA) Business Plan".

The balance sheet forecast in paragraph 6.1 shows that the authority does not expect to need to borrow in 2017/18. Borrowing will be required by 2020/21 and this strategy sets out the methodology and approach that will be taken into consideration at that time.

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 re-negotiate 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. The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2018/19 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

Alternatively, the Authority may arrange forward starting loans during 2018/19, 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 short-term loans (normally for up to one month) to cover unexpected cash flow shortages.

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

- Internal Borrowing
- Public Works Loan Board (PWLB) and any successor body
- UK Local Authorities
- any institution approved for investments
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except the Local Government Pension Scheme administered by Leicestershire County Council)
- Capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

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

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

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

UK Municipal Bonds Agency Plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the Capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities may be required to provide bond investors with a joint and several guarantee to refund their investment in the event that the Agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to the Council.

The Authority holds one LOBO (Lender's Option Borrower's Option) loan of £3.5m as part of its total borrowing of £82.3m, 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. This LOBO has options during 2018/19 and although the Authority understands that the lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Authority will take the opportunity to repay LOBO loans at no cost if it has the opportunity to do so.

The total amount borrowed will not exceed the authorised borrowing limit of £115 million.

Borrowing activity will be reported in the annual Treasury Management Stewardship Report and supplemented with in-year Treasury Activity Reports to the Audit and Governance Committee.

**DEBT RESCHEDULING STRATEGY 2018/19**

The Authority will continue to maintain a flexible policy for 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. However, the lower interest rate environment has adversely affected the scope to undertake meaningful debt restructuring although occasional opportunities arise.

The rationale for rescheduling will be one or more of the following:

- Savings in interest costs with minimal risk.
- Balancing the volatility profile (i.e. the ratio of fixed to variable rate debt) of the debt portfolio.
- Amending the profile of maturing debt to reduce any inherent refinancing risks.

Any rescheduling activity will be undertaken within the Authority's Treasury Management Policy and Strategy. The Authority will agree in advance with its treasury advisor, the strategy and framework within which debt will be repaid / rescheduled, should opportunities arise. Thereafter, the Authority's debt portfolio will be monitored against equivalent interest rates and available refinancing options on a regular basis. As opportunities arise, they will be identified by the Authority's treasury advisor and discussed with the Authority's officers.

All rescheduling activity will comply with accounting and regulatory requirements and will be reported in the annual Treasury Management Stewardship Report and supplemented with in-year Treasury Activity Reports to the Audit and Governance Committee.

**ANNUAL INVESTMENT STRATEGY 2018/19**

The Authority holds invested funds which represent income received in advance of expenditure plus balances and reserves held as reflected in the balance sheet forecast in paragraph 6.1. Similar levels are expected to be maintained in 2018/19.

**Investment Policy**

Guidance from DCLG on Local Governments in England requires that an Annual Investment Strategy (AIS) be approved by Full Council. Both the CIPFA Code and the DCLG Guidance require the Authority to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking the highest rate of return or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

The Authority's investment priorities are:

- security of the invested capital;
- liquidity of the invested capital;
- An optimum yield which is commensurate with security and liquidity.

If the UK enters into a recession in 2018/19, there is a small chance that the Bank of England could set its Bank Rate at or below zero. This would be 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.

**Investment Strategy**

Given the increasing risk and lower returns from short-term unsecured bank investments, the Authority aims to continue to invest in more secure asset classes during 2018/19. This is especially the case for the estimated £12m that is available for longer-term investment. The Authority's surplus cash is currently invested in; short-term unsecured bank or building society deposits, money market funds and short and long term investments with other Local Authorities.

The Authority's investments are made with reference to the Authority's cash flow, the outlook for the UK Bank Rate, money market rates, the economic outlook and advice from the Authority's treasury adviser.

The Authority compiles its cash flow forecast on a pessimistic basis, with receipts underestimated and payments over-estimated to minimise the risk of the Authority having to borrow on unfavourable terms. Limits on investments are set with reference to the Authority's Medium Term Financial Plan and cash flow forecast. This also determines the maximum period for which funds may prudently be committed.

The Section 151 Officer, under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators.

The DCLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt.

All Investment activity will be reported in the annual Treasury Management Stewardship Report and supplemented with in-year Treasury Activity Reports to the Audit and Governance Committee.

### Investment of money borrowed in advance of need

The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. Any risks generated by borrowing in advance of need will be managed as part of the Authority's overall management of its treasury risks.

### Approved Counterparties

The Authority may invest its surplus funds with any of the counterparty types in the table below, subject to the cash and time limits shown:

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 Years	n/a	n/a
AAA	£2m 5 years	£5m 20 years	£5m 50 years	£2m 20 years	£3m 20 years
AA+	£2m 5 years	£5m 10 years	£5m 25 years	£2m 10 years	£3m 10 years
AA	£2m 4 years	£5m 5 years	£5m 15 years	£2m 5 years	£3m 10 years
AA-	£2m 3 years	£5m 4 years	£5m 10 years	£2m 4 years	£3m 10 years
A+	£2m 2 years	£5m 3 years	£5m 5 years	£2m 3 years	£3m 5 years
A	£2m 13 months	£5m 2 years	£5m 5 years	£2m 2 years	£3m 5 years
A-	£2m 6 months	£5m 13 months	£5m 5 years	£2m 13 months	£3m 5 years
None	£1m 6 months	n/a	£5m 25 years	£1m 6 months	£1m 2 years
Banking Provider - Lloyds	£3m 13 months		n/a	n/a	n/a
Pooled Funds	£6m per fund				

This table must be read in conjunction with the notes below:

**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.

**Operational Bank Accounts:** The Authority may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank. These are not classed as investments but are still subject to the risk of a bank bail-in. The Bank of England has stated that in the event of a failure, banks with assets greater than £25 billion are more likely to be bailed-in rather than be made insolvent, increasing the chance of the Authority maintaining operational continuity.

**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. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

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

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

**Pooled Funds:** Shares in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. 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.

**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.

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 and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

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

**Specified Investments:** The DCLG Guidance defines specified investments as those:

- Denominated in pound sterling
- Due to be repaid within 12 months of arrangement
- not defined as capital expenditure by Legislation
- invested with one of:
  - the UK Government
  - a UK local authority, parish council, community Council
  - a body or investment scheme of ‘high credit quality’

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

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

To minimise the risk of investment losses in the case of a default, the maximum that will be lent to any one organisation (other than the UK Government) will be £5 million. A group of banks under the same ownership or a group of funds under the same management will be treated as a single organisation for limit purposes. Limits will also be placed on investments in brokers' nominee accounts (*e.g. King & Shaxson*), foreign countries and industry sectors as below:

	<b>Cash limit</b>
Any single organisation, except the UK Central Government	£5m each
UK Central Government	Unlimited
Any group of organisations under the same ownership	£5m per group
Any group of pooled funds under the same management	£10m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Foreign countries	£5m per country
Registered Providers	£5m in total
Unsecured Investments with Building Societies	£5m in total
Loans to unrated corporates	£5m in total
Money Market Funds	£20m in total (max £6m per fund)
Long-Term (Non-Specified) Investments	£12m in total
Other Non-Specified Investments (not meeting the definition of 'high credit quality')	£5m in total

### **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 of 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, including those present in pooled funds and forward starting transactions, 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 limit and the relevant foreign country limit.



### **Non-Treasury Investments**

The Authority may also purchase property for investment purposes and may also make loans and investments for service purposes, for example in shared ownership housing or as equity investments and loans to the Authority's subsidiaries.

Such purchases, loans and investments will be subject to the Authority's normal approval processes for revenue and capital expenditure.

The Authority's existing non-treasury investments relate to the investment properties held, the fair value of which was £13.554m as at 31 March 2017.

**APPORTIONMENT OF INTEREST STRATEGY 2018/19**

The Localism Act 2011 required Local Authorities to allocate existing and future borrowing costs between the Housing Revenue Account and the General Fund.

Accordingly, on 1<sup>st</sup> April 2012, the Authority notionally split its existing debt into General Fund and Housing Revenue Account as detailed in the 'Borrowing Strategy'. Any future borrowing will be assigned in its entirety to the appropriate revenue account.

Interest payable and any other costs arising from long-term loans (for example, premiums and discounts on early redemption) will be charged to the appropriate revenue account.

Interest received on investment income is budgeted to be apportioned between General Fund and the Housing Revenue Account based on an estimated cash flow position and balance sheet forecast. For 2018/19, the budgeted investment income is £229,000 and is apportioned as follows: £145,300 General Fund and £83,700 Housing Revenue Account. Any over or under achievement of investment income is apportioned on this basis, at the end of the financial year.

## PRUDENTIAL INDICATORS

## 1 Background

The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

## 2. Estimates of Capital Expenditure

The Authority's planned capital expenditure and financing is summarised in the table below. Further detail is provided in the Capital Programmes report taken to Cabinet on 6 February 2018.

Capital Expenditure	2017/18 Approved £m	2017/18 Revised £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Non-HRA	3.071	3.837	3.187	14.280	9.612
HRA	10.152	6.003	10.085	7.268	4.909
<b>Total</b>	<b>13.223</b>	<b>9.840</b>	<b>13.272</b>	<b>21.548</b>	<b>14.521</b>

Capital expenditure will be financed or funded as follows:

Capital Financing	2017/18 Approved £m	2017/18 Revised £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Capital receipts	1.679	4.346	1.684	4.369	1.534
Government Grants	0.525	0.573	0.573	0.573	0.573
Major Repairs Allowance	3.139	3.139	3.127	3.164	3.132
Reserves	3.332	(4.778)	5.548	2.309	0.043
Other Contribution-S106	0.000	1.291	0.000	0.381	0.200
Grants - Other	0.000	0.000	0.000	0.000	0.000
Revenue contributions	3.123	3.007	0.050	0.050	0.050
<b>Total Financing</b>	<b>11.798</b>	<b>7.578</b>	<b>10.982</b>	<b>10.846</b>	<b>5.532</b>
Supported borrowing	0.000	0.000	0.000	0.000	0.000
Unsupported borrowing	1.425	2.262	2.290	10.702	8.989
<b>Total Funding</b>	<b>1.425</b>	<b>2.262</b>	<b>2.290</b>	<b>10.702</b>	<b>8.989</b>
<b>Total Financing and Funding</b>	<b>13.223</b>	<b>9.840</b>	<b>13.272</b>	<b>21.548</b>	<b>14.521</b>

### 3. Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose.

Capital Financing Requirement	2016/17 Actual £m	2017/18 Estimate £m	2017/18 Revised £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Non-HRA	14.383	15.465	16.094	17.765	27.780	35.683
HRA	75.072	73.993	73.993	72.890	71.762	70.608
<b>Total CFR</b>	<b>89.455</b>	<b>89.458</b>	<b>90.087</b>	<b>90.655</b>	<b>99.542</b>	<b>106.291</b>

The General Fund CFR is forecast to rise over the medium term. This is in line with the Capital programme schemes that are financed by debt. The detail of these schemes can be seen in more detail in the capital report presented to Cabinet on 6 February 2018.

### 4. 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 Authority should ensure that the 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.

Debt – as at 31 <sup>st</sup> March	2017 Actual £m	2018 Estimate £m	2019 Estimate £m	2020 Estimate £m	2021 Estimate £m
Borrowing	83.427	82.348	81.245	80.117	78.963
Finance Leases	0.000	0.000	0.000	0.000	0.000
Transferred Debt	0.111	0.104	0.097	0.090	0.082
<b>Total Debt</b>	<b>83.538</b>	<b>82.452</b>	<b>81.342</b>	<b>80.207</b>	<b>79.045</b>

Total debt is expected to remain below the CFR during the forecast period.

### 5. Authorised Limit and Operational Boundary for External Debt

The **Operational Boundary** is based on the Authority's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements and is a key management tool for in-year monitoring. Other long-term liabilities may comprise of finance leases, Private Finance Initiative and other liabilities that are not borrowing but form part of the Authority's debt.

The Section 151 Officer 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 Council.

Operational Boundary for External Debt	2017/18 Approved £m	2017/18 Revised £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Borrowing	93.462	94.929	112.255	130.682	136.872
Other Long-term Liabilities	0.500	0.500	0.500	0.500	0.500
<b>Total</b>	<b>93.962</b>	<b>95.429</b>	<b>112.755</b>	<b>131.182</b>	<b>137.372</b>

The **Authorised Limit** sets the maximum level of external debt on a gross basis (i.e. excluding investments) for the Authority. It is measured on a daily basis against all external debt 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 Authority's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

The Authorised Limit is the affordable borrowing limit determined in compliance under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit). It is the maximum amount of debt that the Authority can legally owe. The Authorised Limit provides headroom over and above the operational boundary to allow for unusual cash movements

<b>Authorised Limit for External Debt</b>	<b>2017/18 Approved £m</b>	<b>2017/18 Revised £m</b>	<b>2018/19 Estimate £m</b>	<b>2019/20 Estimate £m</b>	<b>2020/21 Estimate £m</b>
Borrowing	95.462	96.929	114.255	132.682	138.872
Other Long-term Liabilities	0.700	0.700	0.700	0.700	0.700
<b>Total</b>	<b>96.162</b>	<b>97.629</b>	<b>114.955</b>	<b>133.382</b>	<b>139.572</b>

The Authority 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 Authority and not just those arising from capital spending reflected in the CFR.

## 6. Ratio of Financing Costs to Net Revenue Stream

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, net of investment income.

<b>Ratio of Financing Costs to Net Revenue Stream</b>	<b>2017/18 Approved %</b>	<b>2017/18 Revised %</b>	<b>2018/19 Estimate %</b>	<b>2019/20 Estimate %</b>	<b>2020/21 Estimate %</b>
Non-HRA	8.17	6.20	6.97	7.91	14.00
HRA	12.74	12.54	12.45	12.52	12.38
<b>Total (Average)</b>	<b>10.94</b>	<b>9.73</b>	<b>10.08</b>	<b>10.54</b>	<b>13.03</b>

The Authority has an increasing ratio of Non-HRA financing costs due to forecast increases of interest on loans and MRP contributions and reducing revenue income streams.

## 7. Incremental Impact of Capital Investment Decisions

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed.

<b>Incremental Impact of Capital Investment Decisions</b>	<b>2017/18 Approved £</b>	<b>2017/18 Revised £</b>	<b>2018/19 Estimate £</b>	<b>2019/20 Estimate £</b>	<b>2020/21 Estimate £</b>
Increase in Band D	2.66	2.72	3.36	5.27	8.45

Council Tax					
Increase/(Decrease) in Average Weekly Housing Rents *	(0.83)	(0.83)	(0.82)	(0.81)	2.41

\* Government Policy requires an actual decrease in Housing Rents of 1% per year until 2019/20. This is reflected in the estimates above.

Whilst this is a notional indicator as Band D Council Tax has not been increased, it represents the impact of the increased costs from capital decisions on the Band D Council Tax. The increasing impact is in line with the Estimates of Capital Expenditure as shown in table 2 above.

## 8. Adoption of the CIPFA Treasury Management Code

The Authority re-affirmed adoption of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition at Cabinet on 9 February 2016. It complies with the Codes recommendations.

## TREASURY MANAGEMENT INDICATORS

### 9. Upper Limits for Fixed and Variable Interest Rate Exposure

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

The upper limit for variable rate exposure has been set to ensure that the Authority 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 (Benchmark) level 31/03/17 %	2017/18 Approved %	2017/18 Revised %	2018/19 Estimate %	2019/20 Estimate %	2020/21 Estimate %
Upper Limit - Fixed Interest Rate Exposure	100	100	100	100	100	100
Upper Limit - Variable Interest Rate Exposure	50	50	50	50	50	50

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 Authority's treasury management strategy.

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the transaction year or the transaction date if later. All other instruments are classed as variable rate.

### 10. Maturity Structure of Fixed Rate borrowing

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.

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.

<b>Maturity structure of fixed rate borrowing</b>	<b>Lower Limit for 2018/19 %</b>	<b>Upper Limit for 2018/19 %</b>
under 12 months	0	60
12 months and within 24 months	0	40
24 months and within 5 years	0	50
5 years and within 10 years	0	40
10 years and within 20 years	0	50
20 years and within 30 years	0	70
30 years and within 40 years	0	40

#### **11. Upper Limit for total principal sums invested over 364 days**

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

	<b>2017/18 Approved £m</b>	<b>2017/18 Revised £m</b>	<b>2018/19 Estimate £m</b>	<b>2019/20 Estimate £m</b>	<b>2020/21 Estimate £m</b>
<b>Upper Limit</b>	12	12	12	5	5

The reduction of the Upper Limit from 2019/20 onwards is in line with the capital expenditure expected on the leisure project and to ensure liquidity is maintained.

## ANNUAL MINIMUM REVENUE PROVISION STATEMENT

### Background

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP). Although there has been no statutory minimum since 2008, the Local Government Act 2003 requires the Authority to have regard to the Department for Communities and Local Government's Guidance on Minimum Revenue Provision (the Guidance) most recently issued in 2012.

The DCLG Guidance requires the Authority to approve an Annual MRP Statement each year. The broad aim of the DCLG guidance is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

MRP is not required to be charged to the Housing Revenue Account and where a local authority's overall CFR is £nil or a negative amount there is no requirement to charge MRP.

Following the payment made to exit the Housing Revenue Account subsidy system for the new self-financing arrangements from April 2012, MRP will be determined as being equal to the principal amount repaid on the loans borrowed to finance that payment. The structure of the debt that was incurred to fund the self-financing was based on the principal being repaid over the life of the HRA business plan, which also takes into account the 'old' HRA debt. For 2018/19, the MRP for HRA is determined by the amounts of principal repaid on the loans that were taken out on an annuity basis.

### MRP Options:

Four options for prudent MRP are set out in the DCLG Guidance. Details of each are set out below:

#### Option 1 – Regulatory Method.

For Capital expenditure incurred before 1<sup>st</sup> April 2008, MRP under this option, is the amount determined in accordance with the 2003 regulations. In effect, this is 4% of the total Capital Financing Requirement (CFR) excluding HRA borrowing and Adjustment A. Adjustment A is an accounting adjustment to ensure consistency with previous capital regulations. Once calculated this figure is fixed. For this Authority, Adjustment A is fixed at £606,250.49.

#### Option 2 – CFR Method.

MRP under this option is the same as option 1 but ignores Adjustment A. In effect, this is 4% of the CFR less HRA borrowing.

#### Option 3 – Asset Life Method.

Where capital expenditure on an asset is financed either wholly or in part by borrowing or credit arrangements, MRP is determined by the life of the asset. For example, if the asset life is 5 years, then the MRP for that asset will be based on 20% of the capital expenditure (unsupported borrowing), per year for 5 years.



Option 4 - Depreciation Method.

Under this option, MRP would be based on the provision required under depreciation accounting. It would also take into account any residual value at the end of the life of the asset. For example, if the asset life was 5 years and the residual value was anticipated to be 10% of the asset value, then the MRP for that asset would be based on 20% of the capital expenditure (unsupported borrowing) less 10% residual value per year for 5 years.

**MRP Policy for 2018/19:**

The Authority will apply Option 1 in respect of supported capital expenditure.

The Authority will apply Option 2 in respect of unsupported capital expenditure.

Based on the Authority's latest estimate of its Capital Financing Requirement on 31<sup>st</sup> March 2018, the 2018/19 budget for General Fund MRP is £619,527. The HRA Subsidy Reform payment for 2017/18 is £1,103,275.

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**NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL**

**AUDIT AND GOVERNANCE COMMITTEE – 10 OCTOBER 2018**

Title of report	<b>CORPORATE RISK UPDATE</b>
Contacts	<p>Councillor Nick Rushton  <a href="mailto:nicholas.rushton@nwleicestershire.gov.uk">nicholas.rushton@nwleicestershire.gov.uk</a></p> <p>Strategic Director of Housing and Customer Services  01530 454819  <a href="mailto:glyn.jones@nwleicestershire.gov.uk">glyn.jones@nwleicestershire.gov.uk</a></p> <p>Head of Finance and Section 151 Officer  01530 454781  <a href="mailto:tracy.ashe@nwleicestershire.gov.uk">tracy.ashe@nwleicestershire.gov.uk</a></p>
Purpose of report	To receive the Quarter 1 Corporate Risk Update
Reason for decision	1. The Risk Management Policy requires regular risk updates to be presented to the Audit and Governance Committee.
Council priorities	Value for Money.
Implications:	
Financial/Staff	The Council manages its risks within existing budgets. Effective risk management protects the Council from insurance and/or compensation claims, fraud, and a range of other financial liabilities.
Link to relevant CAT	No direct link.
Risk Management	As detailed in the report.
Equalities Impact Screening	Not applicable.
Human Rights	Not applicable
Transformational Government	Not applicable.
Consultees	None
Background papers	None.

Recommendations	<b>1. THAT THE AUDIT AND GOVERNANCE COMMITTEE NOTES THE QUARTER 1 CORPORATE RISK UPDATE.</b>
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## **1.0 BACKGROUND**

1.1 Cabient approved the updated Risk Management Policy at its meeting on 1 May 2018.

1.2 One of the requirements of the Policy is for members of this Committee and Cabinet to receive details of the high level risks monitored through the Corporate Risk Register. The updated Risk Register can be found at Appendix 1 and a quarterly review of this is now a standing agenda item for this Committee going forward. The updated Risk Register is also now included as an appendix to the Quarterly Performance Reports presented to Cabinet, with any exceptional items being highlighted.

## **2.0 SUMMARY**

2.1 The Risk Scrutiny Group reviews the corporate risks quarterly and recommends any changes through the Corporate Leadership Team prior to the information being presented to this committee

2.2 Two new risks have been added to the Risk Register around local government organisation and the UK's exit from the European Union. There have been no changes to the Risk Ratings or Movements of Risk.

2.3 Audit and Governance Committee are asked to review and note this risk update, and provide any feedback they wish to be considered by the Risk Scrutiny Group.

APPENDIX 1

Corporate Risk Register													
Ref No.	Risk Description	Consequence	Cause	Inherent Risk			Responsibility of	Responsible to	Control Measures	Residual Risk			Movement of Risk
				Impact	Likelihood	Rating				Impact	Likelihood	Rating	
1	<b>SOCIAL/ POLITICAL/ LEGAL</b> Death / serious harm to a vulnerable person receiving a council service	A serious case review arising from death/serious harm to a vulnerable person. Reputational damage to council. Loss of confidence in ability of council to deliver services.	Lack of response to a safeguarding report. Service failure.	4	4	16	Community Safety Manager	Head of Communities	The organisation has the following structures in place; An identified Corporate Lead (Head of Service) with a Portfolio Holder lead An identified Team responsible for Safeguarding (Safer & Stronger) with responsibility embedded into Team Leader role and an officer (Child & Adults at risk Officer) An agreed Safeguarding Policy refreshed as required with delegation to Director of Housing and Customer Services for updates An identified group of Designated Safeguarding Officers (DSO's) in most service areas A programme of regular DSO meetings which consider training, best practice and case issues An annual training programme to ensure new DSO's are well informed and trained A quarterly senior management review of all cases to check progress/close cases A quarterly briefing with the Chief Executive, a 6 monthly report to CLT and an annual report to Cabinet Annual report reviews previous year and endorses an action plan for the year ahead.	4	2	8	Stable
2	<b>FINANCIAL/ COMMERCIAL/ REPUTATIONAL</b> Mismanagement of council finances	Central Government intervention/special measures. Adverse publicity. Possible litigation. Withdrawal of services.	Mis-interpreting of or not responding appropriately to a change in fiscal policy.  Poor budget planning / management.  Internal financial systems and regulations not being properly applied.	4	4	16	Head of Finance	Strategic Director of Housing and Customer Services	Monthly management reviews monitor actual spend against budgets and forecast to the end of the year. Monthly reporting and challenging at CLT, and reported to Cabinet quarterly Sound policies and procedures are in place.  Financial planning processes have been documented and are reviewed regularly.	4	1	4	Stable

									Internal and External audit of systems and accounts. Membership of CIPFA and engagement of Arling Close gives access to specialist advice, analysis and expertise.				
3	<b>REPUTATIONAL/ LEGAL COMMERCIAL</b> Insufficient resources due to unplanned / unforeseen absences / vacancies	Council unable to perform its statutory duties. Use of external resources at significantly higher cost.	Failure to horizon scan and interpret future needs in  Inability to recruit to vacancies / retain staff.	4	2	8	Head of HR and OD	Chief Executive	Advance planning will mitigate this risk; Ability to divert resources from other services, bringing in additional resources from other sources (e.g. Agencies, Consultants, Voluntary/ Community sector etc.) would be activated. Market conditions are tested through recruitment processes. The Council can offer a package of additional benefits to enhance the recruitment offer. The Council has developed innovative partnering relationships with other sectors including the private sector to make posts uniquely attractive. Best Employee Experience is a programme to attract and develop the right skills, and promoting existing staff talent through secondments and tailored development programmes. Apprenticeships allow the Council to 'grow our own'.	3	2	6	Stable
4	<b>LEGAL / FINANCIAL</b> Contracts are not properly procured and managed	Council liable to incur additional costs, contract overrun, litigation and potential health & safety issues as well as service disruptions.	Failure to monitor contractors appropriately.  Legal and procurement teams not consulted when contractors are engaged.  Loss of key staff or supplier.  Procurement procedures are not followed.	3	4	12	Finance Team Manager. All Team Managers.	All Heads of Service	Corporate procurement officer and legal team to support where necessary on contract management. Policies and procedures are in place. Reserve contractor in place where appropriate.  A Senior Procurement Officer oversees a procurement planning process.  Training programme in place for staff.	3	2	6	Increasing *Change due to departure of previous Procurement Manager.
5	<b>LEGAL / TECHNOLOGICAL</b> Loss or unlawful use of personal data constituting	Monetary penalties from ICO, adverse publicity, private litigation and personal criminal liability of officers.	Systems not in place to protect sensitive data.	3	3	9	Legal Services Team Manager	Head of Legal & Support Services	Policies and procedures are in place although not yet rolled out and fully embedded.	3	2	6	Stable

	breach of data protection legislation		Staff are not properly trained in managing information, and do not follow internal procedures.						Corporate Governance training is undertaken annually and includes information governance as appropriate to reflect changes in legislation. The Council has a dedicated SIRO. Corporate Governance Groups are in place to scrutinise impacts/issues arising.				
6	<b>LEGAL / REPUTATIONAL / COMMERCIAL</b> Failure to respond to an emergency in an appropriate manner	General public at risk of harm or unable to access relevant services (e.g. emergency accommodation or rest centre).  Adverse publicity. "Business as usual" not possible without appropriate business continuity plan in place.  Breakdown in relationship with other responders.	Lack of planning, training and exercising of Emergency plans  Inadequate Corporate Business Continuity Management.  Lack of procedural understanding	4	3	12	Head of Human Resources and Organisation Development	Chief Executive	Business continuity plans have been documented, policies and procedures are in place.  The LRF partnership arrangement with all Leicestershire and Rutland authorities provide resilience during civil emergency situations.  Business Continuity exercises show the readiness of the Council to deal with emergencies. System of ICO / FLM duty rotas is in place.	4	1	4	Stable
7	<b>LEGAL/ TECHNOLOGICAL/ COMMERCIAL</b> Infiltration of ICT systems	"Business as usual" would not be possible. Cost of repelling cyber threat and enhancing security features.	Systems not in place or kept current to deflect any foreseeable cyber attack.  Limited staff awareness of possible threats.	4	4	16	ICT Manager	Head of Customer Services	Fully resilient environment in place with no single points of failure for core systems, other critical systems use cold standby equipment. New business services are run in remote fully resilient data centres and existing systems are being progressively migrated to these cloud computing centres.  Improved business recovery arrangements have been implemented to minimise recovery time. Accreditation to Cyber Essentials Plus and the Public Services Network.	3	2	6	Increasing
8	<b>COMMERCIAL / POLITICAL / FINANCIAL</b> Projects are poorly managed	Failure of proposed projects could result in failure to achieve overall objectives. Inefficient use / waste of resources.	Failure to implement project management techniques. Poor corporate oversight of projects.  Inadequate or poorly performing Project Management Office function.	3	4	12	Head of Human Resources and Organisation Development	Head of Legal & Support Services	Properly convened project teams with PID and project plan in place, including project risk registers. Progress on corporate projects scrutinised by CLT.  Use of external resources is also being used to support the Coalville and Leisure projects.	3	3	9	Stable

9	LEGAL / POLITICAL / REPUTATIONAL Council makes ultra vires (beyond the council's powers and functions) decisions	Potential litigation against the Council, resulting in increased costs / compensation. Reputational damage.	Staff / Members proceeding outwith established governance arrangements. Failure to consult with Legal / Monitoring Officer. Lack of understanding of the implications of dealing with a particular matter.	4	3	12	Legal Services Team Manager	Head of Legal & Support Services	Policies & procedures in place, governance processes are documented and in operation, ongoing assessments and reviews are performed. Completion of the Annual Governance statement.	4	1	4	Stable
10	FINANCIAL / LEGAL / REPUTATIONAL Council is subject to fraud, corruption or theft	Financial, reputational and political damage to Council.	Lack of checks and balances within financial regulations.  Poor budget / contract management.  Poor monitoring of / adherence to financial systems	4	3	12	Head of Finance. All Team Managers & Heads of Service.	Directors	A policy framework that includes Anti-Fraud and Corruption Policy, Confidential Reporting (Whistleblowing) Policy and Anti-Money Laundering Policy.  The Internal Audit annual planning process takes into account high risk areas, which considers fraud risks. Fraud risks are considered as part of specific audits with testing designed to detect fraud where possible. The Council is also subject to External Audit.  Internal control and governance arrangements such as segregation of duties, schemes of delegation, bank reconciliations of fund movements, and verification processes.  Information on how to report fraud is on the website including relevant links. Participation in National Fraud Initiative (mandatory) and Leicestershire Fraud Intelligence Hub (voluntary).  Leicestershire Revenues and Benefits Partnership have two trained officers working solely on Council Tax Reduction Scheme Fraud and act as Single Point of Contact for DWP referrals.	3	2	6	Stable



11	<b>FINANCIAL / COMMERCIAL / ECONOMIC</b> The Council is subject to a reduction in income	Services are unable to be delivered. Potential staff redundancies. Funding of external groups is withdrawn. Potential breach of statutory duties.	Reduction in government grant. Changes to the local authority financial settlement. Economic downturn / recession. Commercial opportunities not progressed. Changing rent policies.	3	4	12	Head of Finance. All Heads of Service.	Directors. Chief Executive.	Medium Term Financial Strategy in place, including Self Sufficiency initiative. Economic Development Team promotes business offer. Participation in Business Rates Pilots. Accessing external funding where appropriate. Income collection procedures in Revs & Bens Service and Housing.	3	3	9	Increasing
12	<b>POLITICAL / ORGANISATIONAL</b> The Council is affected by Local Government Reorganisation	a) Change to Local Government structure in Leicestershire/East Midlands, including potential merger of district councils/county council could lead to: - Change in location for service delivery/staff - Reduction of control over local matters - Change in financial situation - Staff redundancies - Alternative political structure and governance arrangements - Changes in services to be provided and organisation culture - Deterioration in staff morale and negative effect on staff recruitment and retention - Ineffective engagement with staff, Members and residents in considering, and responding to, proposals. - Diversion of senior staff resources to respond to proposals.	Political direction to consolidate local government tiers to potentially seek greater efficiency and co-ordination	4	3	12	Chief Executive and Head of Legal and Support Services.	Chief Executive	Active engagement with political leaders and Chief Executives across the County so NWL's needs are taken into account in the proposals. Open and transparent communication of NWL position to all stakeholders. Senior management and politicians stay close to project and monitor progress. Internal and external communication plans in place, including for key decision points. External resources to be utilised in assessing any proposals.	3	3	9	Stable
13	<b>POLITICAL / ORGANISATIONAL</b> The Council is affected by the UK's departure from the EU, including a potential 'no deal' Brexit	The UK's departure from the EU, including an inability to agree the terms of the exit by 31 March 2019 could lead to: - increase in checks on goods by Environmental Officers at East Midlands Airport meaning increase in resources / costs. - uncertainty and subsequent regime around tariffs, access to markets, migrant labour and transport of goods in / out of EU could impact on businesses in district / region leading to decline in business rates and employment levels. - potential need for increased storage facilities at entry / exit points and associated increases in freight traffic, putting pressure on local infrastructure - potential withdrawal of access to EU wide IT systems (e.g. relating to imported foodstuffs) -diversion of staff resources into contingency planning.	UK departure from EU, including inability of the EU and UK govt to agree terms by 31 March 2019 of the UK's exit.	4	3	12	Chief Executive and Head of Economic Regeneration	Director of Place / Chief Executive	Engage with National Local Authority steering groups for border control at strategic & operational levels. Implement communication strategy for local businesses so technical notices are shared, with appropriate signposting. Work with LLEP and Chamber of Commerce to provide business advice and support to address changes to legislation & certification. Monitor political developments on EU withdrawal closely. Establish contingency plans after scenario based assessment of resources required for increase in checks and controls, & access to alternative IT systems. Conduct localised assessment of potential impact around East Midlands Airport. Multi-agency Leicestershire Resilience Forum risk assessment and mitigation plan to be prepared	3	3	9	Stable

Assessing the likelihood of a risk:

<b>1 Low</b>	Likely to occur once in every ten years or more
<b>2 Medium</b>	Likely to occur once in every two to three years
<b>3 High</b>	Likely to occur once a year
<b>4 Very high</b>	Likely to occur at least twice in a year

Assessing the impact of a risk:

<b>1 Low</b>	Loss of a service for up to one day, Objectives of individuals are not met No injuries Financial loss below £10,000 No media attention No breaches in council working practices No complaints / litigation
<b>2 Medium</b>	Loss of a service for up to one week with limited impact on the general public Service objectives of a service unit are not met  Injury to an employee or member of the public requiring medical treatment Financial loss over £10,000 Adverse regional or local media attention – televised or newspaper report Potential for a complaint litigation possible Breaches of regulations / standards
<b>3 High</b>	Loss of a critical service for one week or more with significant impact on the public and partner organisations Service objectives of the directorate of a critical nature are not met Non- statutory duties are not achieved Permanent injury to an employee or member of the public Financial loss over £100,000 Adverse national or regional media attention – national newspaper report Litigation to be expected Breaches of law punishable by fine
<b>4 Very high</b>	An incident so severe in its effects that a critical service or project will be unavailable permanently Strategic priorities of a critical nature are not met Statutory duties are not achieved Death of an employee or member of the public  Financial loss over £1m. Adverse national media attention – national televised news report Litigation almost certain and difficult to defend  Breaches of law punishable by imprisonment

**NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL****AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 10 OCTOBER 2018**

Title of report	<b>STANDARDS AND ETHICS - QUARTER 1 REPORT</b>
Contacts	Councillor Nick Rushton 01530 412059 <a href="mailto:nicholas.rushton@nwleicestershire.gov.uk">nicholas.rushton@nwleicestershire.gov.uk</a>  Head of Legal and Commercial Services and Monitoring Officer 01530 454701 <a href="mailto:elizabeth.warhurst@nwleicestershire.gov.uk">elizabeth.warhurst@nwleicestershire.gov.uk</a>
Purpose of report	To receive the figures for local determination of complaints and the ethical indicators for Quarter 1 of 2018/19.
Council priorities	Value for Money
Implications:	
Financial/Staff	N/A
Link to relevant CAT	N/A
Risk Management	By receiving this information members will be able to manage risks.
Equalities Impact Screening	N/A
Human Rights	N/A
Transformational Government	This relates to the new ways in which Councils are being asked to deliver their services
Consultees	N/A
Background papers	None.
Recommendations	<b>THAT THE REPORT BE RECEIVED AND NOTED</b>

**1.0 STANDARDS AND ETHICS Q4 REPORT**

1.1 Enclosed is the Standards and Ethics – Quarter 1 Report for the committee's review.

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# **STANDARDS AND ETHICS QUARTER 1 REPORT 2018/2019**

**Page 1** Introduction

**Page 2** Part 1 – Local Determination of Complaints

**Page 3** Part 2 – Ethical Indicators

**Page 4** Stage 1 Complaints

**Page 5** Stage 2 Complaints

**Page 6** MP Enquiries

**Page 7** Ombudsman (Complaints)

**Page 8** Total Number of Complaints

**Page 9** Freedom of Information (FOI)

**Page 10** Regulation of Investigatory Powers Act Indicators

This is the quarterly report to the Audit & Governance Committee detailing both the figures for the Ethical Indicators and the figures for the Local Determination of Complaints process for 2018/19.

For clarification purposes the months covered by the quarters are as follows:

Quarter 1 – 1 April to 30 June

Quarter 2 – 1 July to 30 September

Quarter 3 – 1 October to 31 December

Quarter 4 – 1 January to 31 March

The report is split into 2 parts for ease of reference; Part 1 refers to the local determination of complaints, part 2 is the table showing the ethical indicators figures.

The report will enable the Audit & Governance Committee to build up a picture over time of how many complaints are received and where these are coming from. The parts of the Code of Conduct which have been breached will also be recorded to enable training to be targeted effectively.

# Part 1 - Local Determination of Complaints

www.nwleics.gov.uk

The Monitoring Officer received 1 complaint in Quarter 1 of 2018/19 relating to 1 District councillor.

## 2.1 Assessment Sub-committee Decisions

There have been 0 Assessment Sub-committee meetings in this quarter.

As members will be aware, the Monitoring Officer now pursues an informal dispute resolution process prior to initiating formal proceedings via the Sub-committee route.

**1 complaint received in Quarter 4 2017/18 has been resolved informally in Quarter 1.**

## 2.2 Timeliness of Decision

The Standards for England Guidance stated that the Assessment Sub-committee should complete its initial assessment of an allegation “within an average of 20 working days” to reach a decision on what should happen with the complaint. The Council has taken this standard and adapted it under the new rules to aim to hold an Assessment Sub-committee within 20 working days of notifying the parties that informal resolution is not possible.

## 2.3 Review Requests

There have been no review requests in Quarter 1. Review requests can only be made following a decision of ‘No further Action’ by the Assessment Sub-committee where there is submission of new evidence or information by the complainant.

## 2.4 Subsequent Referrals

None to report – see above.

## 2.5 Outcome of Investigations

There were no investigations concluded in this period.

## 2.6 Parts of the Code Breached

This section is intended to show where there are patterns forming to enable the Audit and Governance Committee to determine where there needs to be further training for Councillors. Targeting training in this way makes it more sustainable and, hopefully, more effective.

2 So far this year, the following areas of the code were found to have been breached:

N/A



## Part 2 – Ethical Indicators

REF	Performance Indicator Description	Officer Responsible For Providing Information	Q1		Q2		Q3		Q4	
			2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
1.0	Objections to the councils accounts	Financial Planning Team Manager	0	0						
1.1	Follow up action relating to breaches of the Member/Officer Protocol (Members)	Head of Legal And Support Services	0	0						
1.2	Disciplinary action relating to breaches of the Member/Officer Protocol (staff)	Human Resources Team Manager	0	0						
1.3	Public interest reports	Senior Auditor	0	0						
1.4	Number of whistle blowing incidents reported		0	0						
1.5	No. of recommendations made to improve governance procedures/policies		17	25						
1.6	No. Of recommendations implemented		12	5						

# Stage 1 Complaints

First stage of a formal complaint. A formal complaint can be made if a customer believes a service within the Council has let them down, we did something wrong or a service we provided was unfair. We have 10 working days to provide to response to the complaint.

Complaints responded to on time in Q1 **70%**

We received an average of **10** Complaints a month in Q1

Our average response time was **10 days**

- Top 3 types of Stage 1 complaints Q1**
- Revenues and Benefits
  - Planning and Development
  - Housing Repairs

The average response in Q1 was in line with our corporate complaints policy of 10 working days. The success of this can be mainly down to a more structured approach when dealing with complaints. Having a dedicated Feedback resource allows for complaints to be logged within 2 working days of receipt so the information can get out to the teams to allow the investigation to begin as soon as possible. A lot of hard work has gone into building relationships with teams and managers to enable good working practice which in turn benefits the complainant with an on time response.

**29** Stage 1 complaints were resolved in Q1. This is an increase of **12%** from Q1 17/18

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REF	Performance Indicator Description	Officer Responsible for Providing Information	Q1		Q2		Q3		Q4	
			2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
<b>Stage 1 Complaints Received</b>			2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
2.0	Total no. of Stage 1 complaints received	Corporate Complaints Officer	28	30						
2.1	No. of Stage 1 complaints Resolved		26	29						
2.2	No. of customers who raised their Stage 1 complaint to a Stage 2		5	2						
2.3	No. of Stage 1 complaints still open and within 10 days		2	1						

# Stage 2 Complaints

complaint:

If the customer is dissatisfied with our response to their Stage 1 complaint, they can ask for this to be raised to a Stage 2 for further investigation. These investigations are carried out by Heads of Service. We have 10 working days to provide a response to the complaint.

Stage 2 Complaints responded to in Q1 **100%**

We received an average of **2** complaints a month in Q1

Our average response time was **21 days**. Two particularly complicated cases have increased this average

- Top types of Stage 2 complaints Q1**
- Planning and Development
  - Housing Asset Management
  - Planning Policy

7 Stage 2 complaints were resolved in Q1. This is more than twice as many as in Q1 17/18. This is due to having a dedicated Feedback resource and also the efficiency of teams getting their responses back.

The high average response time for stage two cases can be attributed to the complex nature of certain Planning Complaints. These require detailed investigation in order to provide an appropriate response that ensures the complainant's concerns are addressed.

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REF	Performance Indicator Description	Officer Responsible for Providing Information	Q1		Q2		Q3		Q4	
			2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
<b>Stage 2 Complaints Received</b>										
3.0	Total no. of Stage 2 complaints received	Corporate Complaints Officer	5	7						
3.1	No. of Stage 2 complaints Resolved		3	7						
3.2	% of stage 2 complaints answered on time		60	29						
3.3	No. of Stage 2 complaints still open and within 10 days		2	0						

## Definition of an MP Enquiry:

These are enquiries sent in from local MP's on behalf of their constituent. These can be independent enquiries or could be linked to an earlier complaint which we may not have resolved to the customer's satisfaction. We have 10 working days to provide a response to the enquiry.

MP enquiries responded to in Q1 **100%**

We received an average of **3 MP enquiries** each month in Q1

Our average response time was **7 days.**

## What the MP Enquiries were about:

- Housing Management
- Environmental Protection
- Revenues and Benefits

9 MP enquiries were resolved in Q1. This is a decrease of **11%** from Q4 17/18. The biggest reduction in MP enquiries is Housing and Property Services which suggest service improvements are reducing referrals to the MP.

REF	Performance Indicator Description	Officer Responsible for Providing Information	Q1		Q2		Q3		Q4	
			Actual 2016/17	2017/18	Actual 2016/17	2017/18	Actual 2016/17	2017/18	Actual 2016/17	2017/18
<b>MP Enquiries received</b>			Actual 2016/17	2017/18	Actual 2016/17	2017/18	Actual 2016/17	2017/18	Actual 2016/17	2017/18
4.0	Total no. of MP enquiries (req) received	Head of Legal and Support Services	19	9						
4.1	% of req responded to on time		63	67						

## Definition of an Ombudsman complaint:

If the customer has followed our Stage 1 and Stage 2 complaints procedure and is still unhappy with the outcome, they are entitled to take their complaint to the Local Government Ombudsman for independent judgement. They will review the details and decide whether we, as a Council, have a case to answer in respect of the complainant.

Ombudsman Complaints received in Q1 was 0

Ombudsman complaints resolved in Q1 were 0

0 cases resolved

- 0 not upheld
- 0 upheld

## What the Ombudsman complaints were/are about:

- No new Ombudsman complaints were received during Q1

We currently have one Ombudsman case now outstanding. This is a case which is related to Revenues and Benefits. The Ombudsman has recently asked for further information which is to be supplied to them by the end of October 2018.

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REF	Performance Indicator Description	Officer Responsible for Providing Information	Q1		Q2		Q3		Q4	
			Actual 2017/18	2018/19	Actual 2017/18	2018/19	Actual 2017/18	2018/19	Actual 2017/18	2018/19
<b>Ombudsman Complaints received</b>			Actual 2017/18	2018/19	Actual 2017/18	2018/19	Actual 2017/18	2018/19	Actual 2017/18	2018/19
5.0	Total no. of Ombudsman Complaints received	Head of Legal and Support Services	0	0						
5.1	No of req still open and within 10 working days		0	0						

- No of complaints still open **1**
- There were **14** cases that were over due in Q1. This is an increase of **50%** against Q4 of 2017/18.
- **6** Service Areas received 1 or more complaints.
- No. of service areas that did not receive any complaints = **19**

The breakdown of Service Areas that received 1 or more complaints in Q1 is:

- Housing Asset Management
- Planning and Development
- Environmental Protection
- Housing Management
- Revenues and Benefits
- Planning Policy

Total number of complaints responded to in Q1  
**37**

We received an average of 12 Complaints per month in Q1

Our average response time was **12 days**

**36** complaints were resolved in Q1. This is equal from the same period in 17/18

## What we do differently as a result of the complaints received:

- Developing the relationship between Feedback (the complaints team) and the Service Areas has resulted in an improvement in:
  - Easier communication of lessons to be learned back to the Service Area so that repeat complaints are reduced
  - An improvement in the response time and the quality of responses
- Feedback from complaints is being used to inform the emerging strategies such as reforms to Customer Services and the Pre-application Process in Planning

# Freedom of Information (FOI)

## Type of FOI requests received:

### Business as usual (BAU) requests:

If the requested information can be quickly and easily sent to the requester then it may be dealt with within the normal course of business and treated as BAU.

**Total number of BAU requests in Q1**

**58**

### Transfers:

Are FOI requests received by us but do not fall within our remit – i.e. Adult Social Care, Children’s Services or Highways are a few examples.

**Total number of Transfers in Q1**

**29**

### Subject Access Requests (SAR):

A SAR is a request from an individual to see information an organisation holds on them.

**Total number of SAR received in Q1**

**3**

### Land charges (LC) searches:

Specific information about a particular property and the surrounding area for buyers and sellers.

**Total number of LC Searches in Q1**

**40**

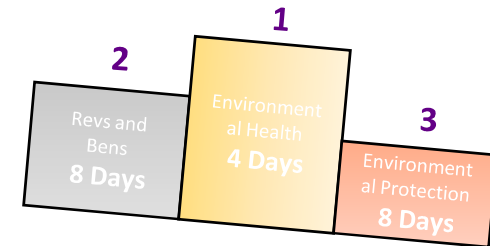
**31** unique visitors to the council’s open data page

We received an average of **14** FOI’s a month in Q3

Our average response time was **12** days

We had a decrease of **64%** compared to Q1 (17/18) for number of FOI’s received

**Top 3** service areas with the **quickest** response times FOI’s



REF	Performance Indicator Description	Officer Responsible for providing information	Q1		Q2		Q3		Q4	
			Actual 2017/18	2018/19	Actual 2017/18	2018/19	Actual 2017/18	2018/19	Actual 2017/18	2018/19
Freedom of Information Act Indicators			Actual 2017/18	2018/19	Actual 2017/18	2018/19	Actual 2017/18	2018/19	Actual 2017/18	2018/19
6.0	Total no. of requests (req) received	Records Management Officer	120	43						
6.1	% req answered on time		100	84						
6.2	No. of non compliant req		9	0						
6.3	No of FOI appeals		0	0						
6.4	Number withheld due to exemptions/fees applied		5	7						

# Regulation of Investigatory Powers Act Indicators

REF	Performance Indicator Description	Officer Responsible for Providing Information	Q1		Q2		Q3		Q4	
			Actual 2017/18	2018/19	Actual 2017/18	2018/19	Actual 2017/18	2018/19	Actual 2017/18	2018/19
7.0	No. of directed surveillance authorisations granted during the quarter	Senior Auditor	0	0						
7.1	No. in force at the end of the quarter		0	0						
7.2	No. of CHIS recruited during the quarter		0	0						
7.3	No. ceased to be used during the quarter		0	0						
7.4	No. active at the end of the quarter		0	0						
7.5	No. of breaches (particularly unauthorised surveillance)		0	0						
7.6	No. of applications submitted to obtain communications data which were rejected		0	0						
7.7	No. of notices requiring disclosure of communications data		0	0						
7.8	No. of authorisations for conduct to acquire communications data		0	0						
7.9	No. of recordable errors		0	0						

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**AUDIT AND GOVERNANCE COMMITTEE – WORK PROGRAMME** (as at 01/10/18)

<b>Issue</b>	<b>Details</b>	<b>Report Author</b>	<b>Meeting at which will be reported</b>
<b>December</b>			
Internal Audit Progress Report		Sharon Harrison-Bowler	5 December 2018
Annual Audit Letter		Tracy Bingham, Head of Finance	5 December 2018
Corporate Risk Update		Tracy Bingham, Head of Finance	5 December 2018
Treasury Management Activity Report		Tracy Bingham, Head of Finance	5 December 2018
Standards and Ethics - Quarter 2 Report		Elizabeth Warhurst, Head of Legal & Commercial Services	5 December 2018
<b>March</b>			
External Audit Plan		Tracy Bingham, Head of Finance	20 March 2019
Internal Audit Progress Report		Sharon Harrison-Bowler	20 March 2019
Internal Audit Annual Plan		Sharon Harrison-Bowler	20 March 2019
Treasury Management Activity Report		Tracy Bingham, Head of Finance	20 March 2019
Grants and Claims Annual Report		Tracy Bingham, Head of Finance	20 March 2019
Standards and Ethics - Quarter 3 Report		Elizabeth Warhurst, Head of Legal & Commercial Services	20 March 2019
Draft Member Conduct Annual Report		Elizabeth Warhurst, Head of Legal & Commercial Services	20 March 2019

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