

Meeting	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
Time/Day/Date	6.30 pm on Wednesday, 5 December 2018
Location	Council Chamber, Council Offices, Coalville
Officer to contact	Democratic Services (01530 454512)

### **AGENDA**

<b>Item</b>	<b>Pages</b>
<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 10 October 2018	<b>3 - 8</b>
<b>4. INTERNAL AUDIT PROGRESS REPORT</b>	
Report of the Audit Team Manager	<b>9 - 24</b>
<b>5. TREASURY MANAGEMENT ACTIVITY REPORT</b>	
Report of the Head of Finance	<b>25 - 60</b>
<b>6. ANNUAL GOVERNANCE STATEMENT IMPROVEMENTS</b>	
Report of the Head of Finance	<b>61 - 64</b>
<b>7. CORPORATE RISK UPDATE</b>	
Report of the Strategic Director of Housing and Customer Services	<b>65 - 74</b>
<b>8. CIPFA'S PRACTICAL GUIDE FOR LOCAL AUTHORITIES AND POLICE (2018 EDITION) - SELF-ASSESSMENT OUTCOME REPORT</b>	
Report of the Head of Finance	<b>75 - 110</b>

**9. STANDARDS AND ETHICS - QUARTER 2 REPORT**

Report of the Head of Legal and Commercial Services

**111 - 124**

**10. COMMITTEE WORK PLAN**

To note the Committee's work plan

**125 - 126**

Circulation:

Councillor R Ashman  
Councillor J Clarke  
Councillor J Cotterill  
Councillor D Harrison (Deputy Chairman)  
Councillor G Hault  
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, 10 OCTOBER 2018

Present: Councillor V Richichi (Chairman)

Councillors R Ashman, J Clarke, J Cotterill, G Hault, G Jones, S McKendrick and S Sheahan

Officers: Mrs T Bingham, Mr G Jones, Mrs L Marron, Mr I Nelson, Mrs R Wallace, Miss E Warhurst and Miss A Wright

External Audit: Mr T Crawley and Mr S Gill

### **13. APOLOGIES FOR ABSENCE**

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

### **14. DECLARATION OF INTERESTS**

There were no declarations of interest.

### **15. MINUTES**

Consideration was given to the minutes of the meeting held on 25 July 2018.

It was moved by Councillor J Clarke, seconded by Councillor J Cotterill and

RESOLVED THAT:

The minutes of the meeting held on 25 July 2018 be approved as a correct record and signed by the Chairman.

### **16. REPORT TO THOSE CHARGED WITH GOVERNANCE 2017/18**

The Head of Finance introduced the report and informed Members of the following amendment to the letter of representation.

Paragraph 4 of the Financial Statements section of the representation letter should read the following:

'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 council dwellings **and garages** valuation, the Authority confirms that the restatement is appropriate.'

Mr Tony Crawley, External Auditor, presented his report to Members highlighting the control environment, key financial systems, accounts production, financial statements and value for money arrangements. He referred to the misstatements relating to the valuation of Property Plant and Equipment. It was his opinion that the decision to delay the final statement of accounts to rectify the underlying issues was the correct one. He referred Members to the summary of adjusted audit differences relating to this at appendix 3.

Councillor V Richichi asked the External Auditor if he could identify any financial risks that could be encountered in the near future once the new homes bonus ceased. The External Auditor stated that it was unclear how local authority finance would look in the future, however he did not believe the current financial risks would change. He commented that it was important to have the correct amount of resilience if new homes

bonus income was to be reduced, with constant planning and good interaction between officers and Members. The Head of Finance referred to the medium term financial plan and assured Members that officers were looking at a number of possible scenarios which would be shared with Members in the coming months.

Councillor S Sheahan thanked the Head of Finance and her team for the work undertaken in a difficult financial year and resolving the capital accounting issue, he felt that the final accounts had been dealt with very well.

It was moved by Councillor S Sheahan, seconded by Councillor J Cotterill and

RESOLVED THAT:

- a) The contents of the external auditor's report, including recommendations and management comments be noted.
- b) The letter of representation be approved.

## **17. ANNUAL GOVERNANCE STATEMENT 2017/18**

The Head of Finance presented the report to Members highlighting the annual requirement to review the governance arrangements to be published alongside the statement of accounts. She referred Members to the improvements identified through the Annual Governance Statement review detailed at section four and confirmed that the statement had also been reviewed by the External Auditors.

Councillor R Ashman asked if the computer software used to facilitate Council services was protected in the event that any of the external providers went into administration. He expressed concerns regarding any loss of data. The Head of Finance clarified that there were agreements with the providers in place to safeguard Council data.

Councillor S Sheahan referred to the assessment of supporting principles in the assurance review and asked if there were any plans in place to improve the 'fair' ratings to 'good' in the future. The Head of Finance responded that anything rated as 'fair' was identified as requiring improvement and an improvement action was included in the main Annual Governance Statement. The Head of Finance confirmed that the Committee would receive regular quarterly updates on the progress of these improvement actions. In response to a further question from Councillor S Sheahan, the Head of Finance could not guarantee that the 'fair' ratings would be improved by next year as it was dependent on the timescale for each improvement but the aspiration was to move to 'good'. She would provide estimated timescales in future reports.

By affirmation of the meeting it was

RESOLVED THAT:

The Annual Governance Statement be approved.

## **18. ANNUAL STATEMENT OF ACCOUNTS 2017/18**

The Head of Finance presented the report to Members. She highlighted the hard work required to produce the statement of accounts in time for the meeting and was proud of her team for the effort and long hours taken to complete the task.

The Chairman thanked the Head of Finance and her team for the work undertaken to produce the statement of accounts.

By affirmation of the meeting it was

RESOLVED THAT:

- a) The annual statement of accounts be approved.
- b) Authority to sign the accounts as approved be delegated to the Chairman.
- c) Authority to approve any minor non material amendments, as agreed with the auditor on behalf of the Committee, be delegated to the Chairman and the Section 151 Officer.

## **19. INTERNAL AUDIT PROGRESS REPORT**

The Audit Manager presented the report, highlighting the three final audits issued since the last meeting and directing Members to the executive summaries at appendix B. She also reported on the work undertaken by the working group to facilitate the self-assessment of the Committee in accordance with CIPFA guidance and a report would be presented to Members in December.

In relation to audit recommendation number 11 at page 83 of the report for the 'Review of Compliance with the CIPFA Code of Practice on Managing Fraud and Corruption', the Head of Finance explained that additional support was required to carry out this significant piece of work and that she was currently seeking support from colleagues at Leicester City Council. She could not guarantee that the work would be completed by the end of the financial year and would provide a timescale at the next meeting.

Councillor S Sheahan asked if it was reasonable to expect the outstanding audits to be completed by the deadlines stated within the report. The Audit Manager referred to appendix D where it stated that delivery of the 2018/19 Audit Plan was currently below target for the financial year but it was expected to be back on track by the end of Quarter 3. She added that a further update would be provided at the next meeting.

By affirmation of the meeting.

RESOLVED THAT:

The report be noted.

## **20. SERVICE UPDATE - S106 INTERNAL AUDIT RECOMMENDATIONS**

The Planning Policy Team Manager presented the report to Members. He explained that due to the amount of work required on managing the Section 106 Agreements, plans were in place to recruit a senior officer to work exclusively in this area.

In response to a question from Councillor V Richichi regarding the handling of Section 106 money, the Planning Policy Team Manager explained that the money was held in an interest bearing account as any unspent money had to be returned to developers with interest. He added that a monitoring fee was charged for some of the older agreements. Councillor S Sheahan asked why a fee was only charged on the older agreements. The Planning and Policy Team Manager believed that legally they were no longer allowed to charge a fee, although he would look into this further.

In response to a question from Councillor G Jones, the Planning Policy Team Manager stated that there had been no instances where money had been returned to the developer in the last year.

In response to a request from Councillor J Clarke, the Planning Policy Team Manager agreed to include Ward Members in the correspondence with parish council's regarding unspent Section 106 Money.

Councillor R Ashman thanked the Planning and Policy Team Manager for the report as he felt that a lot had been achieved.

By affirmation of the meeting it was

RESOLVED THAT:

- a) The progress made to date on implementing the recommendations in respect of monitoring S106 Agreements be noted.
- b) The proposals to make further improvements in respect of the monitoring of S106 Agreements be noted.

## **21. TREASURY MANAGEMENT ACTIVITY REPORT**

The Finance Team Manager presented the report to Members, drawing attention to the Council's current treasury position, borrowing activity, debt rescheduling activity and investment activity.

Councillor S Sheahan asked if the use of other local authorities as investment counterparties was the right direction to take in the current financial climate. The Head of Finance explained that the advice received from the Council's treasury advisors was to move away from investment in banks to lower the inherent investment risk. She added that any loan to another local authority would be underwritten by the revenues (council tax and business rates) generated in that area, in the event of any financial problems. Councillor S Sheahan felt it was important to monitor any investments of that kind.

In response to a question from Councillor V Richichi regarding the funding of the leisure centre project, the Head of Finance explained that there was still further detailed work to be undertaken on the funding of the project and this would be included in the budget reports to be considered by Members in due course. However, at this time the intention was to fund the project through internal borrowing.

By affirmation of the meeting it was

RESOLVED THAT:

The report be approved.

## **22. CORPORATE RISK UPDATE**

The Director of Housing and Customer Services presented the report to Members, highlighting two new risks relating to local government organisation and the UK's exit from the European Union.

At the request of Councillor S Sheahan, the Director of Housing and Customer Services gave an explanation on the differences between inherent risk and residual risk.

By affirmation of the meeting it was

RESOLVED THAT:

The report be noted.

**23. STANDARDS AND ETHICS - QUARTER 1 REPORT**

The Head of Legal and Commercial Services presented the report to Members.

Councillor S Sheahan asked for an explanation for the drop in the percentage of the number of stage two complaints answered on time. The Head of Legal and Commercial Services agreed to look into the matter further and report back to Councillor S Sheahan.

By affirmation of the meeting it was

RESOLVED THAT:

The report be noted.

**24. COMMITTEE WORK PLAN**

The Head of Finance announced the addition of the following items for the next meeting:

- a) External Audit Recommendations Progress Report (March)
- b) 2018/19 Materiality Level and Accounting Policies (March)

By affirmation of the meeting it was

RESOLVED THAT:

The report be noted.

The meeting commenced at 6.30 pm

The Chairman closed the meeting at 7.57 pm

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**NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL****AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 5 DECEMBER 2018**

Title of report	<b>INTERNAL AUDIT PROGRESS REPORT – NOVEMBER 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>Audit Manager 01530 454728 <a href="mailto:Lisa.Marron@nwleicestershire.gov.uk">Lisa.Marron@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 using a risk assessment based methodology.
Equalities Impact Assessment	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

Recommendations	<b>THAT THE AUDIT AND GOVERNANCE COMMITTEE NOTE THE REPORT</b>
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## **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:
  - d) Approve (but not direct) Internal Audit's strategy and plans and monitor performance
  - e) Review summary Internal Audit reports and the main issues arising, and seek assurance that action has been taken where necessary
  - f) Receive the annual report of Internal Audit'.

## **3. PROGRESS REPORT**

- 3.1 The Internal Audit Progress Report for the period 01 to 31 October 2018 is attached at Appendix 1.



# **INTERNAL AUDIT SHARED SERVICE**

**North West Leicestershire District Council**

**Internal Audit Progress Report**

**OCTOBER 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 31<sup>st</sup> October 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 Interim Audit Manager left the Council on 19<sup>th</sup> October 2018. The Audit Manager will be returning from maternity leave on 27<sup>th</sup> November 2018.

## **7 Internal Audit Plan Update**

- 7.1 Since the last update report, one report has been issued for management review, two are at report drafting stage, three reviews are in progress and two are at engagement planning stage.

There have been no final audit reports issued between 1<sup>st</sup> and 31<sup>st</sup> October 2018.

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 Internal Audit Recommendations**

- 8.1 Internal Audit monitors and follows up all critical, high and medium priority recommendations. All outstanding recommendations are included at Appendix B for information.
- 8.2 The Head of Finance will provide a verbal update at the meeting with regard to the outstanding Anti-Fraud and Corruption recommendation.

## **9 Internal Audit Performance Indicators**

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

## 2018/19 AUDIT PLAN PROGRESS TO 31st OCTOBER 2018

Audit Area (report number)	Type	Planned Days	Actual Days	Status	Assurance Level	Recommendations					Comments
						C	H	M	L	A	
HR & ORGANISATIONAL DEVELOPMENT											
Health & Safety	Risk Based	8	7.6	In progress							
HOUSING											
Homelessness (New Homelessness Reduction Act)	Risk Based	8	-	Scheduled for Q3							
Housing Repairs	Risk Based	15	18.5	Report drafting.							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 (2)	Risk Based	10	10.9	Report issued for management review.							Additional testing identified during the audit
Property Services	Risk Based	8	-	Scheduled for Q4							
Housing ICT review	Advisory	2	-	As required							
COMMUNITY SERVICES											
Grounds Maintenance	Risk Based	7	1.6	In progress							
Planning Enforcement	Risk Based	8	-	Scheduled for Q3							
Car Parking & Enforcement (1)	Risk Based	6	6.5	Complete	Grade 1						
Environmental Health (Licensing )	Risk Based	8	0.5	Engagement planning							
PLANNING											
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 Q4)							

Audit Area (report number)	Type	Planned Days	Actual Days	Status	Assurance Level	Recommendations					Comments
						C	H	M	L	A	
ECONOMIC DEVELOPMENT											
Cultural Services	Risk Based	5	-	Scheduled for Q4							Phase 2 of Restructure – to review audit requirements in Q4
FINANCE											
Creditors	Key Financial System	6	3.3	Report drafting							
Rent Accounting	Key Financial System	4	0.3	In progress							
Treasury Management	Key Financial System	4	-	Scheduled Q4							
Sundry Debtors	Key Financial System	5	-	Scheduled Q4							
Main Accounting	Key Financial System	5	-	Scheduled Q3/4							
Budgetary Control	Key Financial System	7	-	Scheduled Q3/4							
HR & Payroll	Key Financial System	4	-	Scheduled Q4							
Contract /Programme Management	Risk Based	6	0.5	Engagement Planning							
Finance service/systems reviews	Advisory	6	3	As required							
ICT											
➔Firmstep – Phase 1 Implementation	Risk Based	6	-	Deferred to Q3							Audit requirements to be reviewed

## **KEY**

### **Audit Opinion**

Grade	Definition
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**

Level	Definition
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.
High	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.



## RECOMMENDATIONS TRACKER – OUTSTANDING RECOMMENDATIONS

## Appendix B

Report		Recommendation		Rating	Officer Responsible	Target Date	Responsible Officer Update ( October 2018)	Internal Audit Comments
2016/17 Reports								
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	Additional support required to carry out this significant piece of work and seeking support from colleagues at Leicester City Council. The revised likely timeframe for completion of this piece of work is now Q1 2019/20 pending confirmation of third party support.	In progress. Update on timescales for implementation to be provided at Audit & Governance Committee 5 <sup>th</sup> December 2018.
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	The Planning Policy Team Manager provided a progress report to Audit & Governance Committee 10 <sup>th</sup> October 2018.	At the request of the service Internal Audit have witnessed progress in relation to site overview sheets for S106 agreements. Internal Audit to carry out a full audit in Q4.
		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	As above.	As above

Report		Recommendation		Rating	Officer Responsible	Target Date	Responsible Officer Update ( October 2018)	Internal Audit Comments
		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	As above	As above
		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	As above.	As above
<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	Not yet due – see Internal Audit comments	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 document to accompany rent statements at year end is to be reviewed.

Report		Recommendation		Rating	Officer Responsible	Target Date	Responsible Officer Update ( October 2018)	Internal Audit Comments
								<p>This will prompt customers to verify their information for key contacts etc.</p> <p>Internal Audit to follow up in February 2019.</p>
		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	Not yet due – see Internal Audit comments.	<p>Target date extended to January 2019 at the request of the Head of Customer Services. SLA documents being produced with all key areas, Central Control to feature as part of this in conjunction with Housing Services.</p> <p>Internal Audit will follow up in January / February 2019.</p>
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 and Buildings element of the policy being assigned to the Asset Management Team Manager, the Plant and Equipment element being assigned to the Head of Finance (S151	High	<b>Head of Finance (S151 Officer) &amp; Asset Management Team Manager</b>	11 December 2018	Single Asset Disposal Policy drafted and due to be presented to Policy and Development Group in January and Cabinet in February 2019.	Internal Audit will now follow up in January 2019.

Report		Recommendation		Rating	Officer Responsible	Target Date	Responsible Officer Update ( October 2018)	Internal Audit Comments
			Officer). The policy, once completed, should be formally approved (Asset Management Group, CLT) and made available to relevant staff.					
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	Not yet due – see Internal Audit comments	Work in progress to formalise all existing procedures.  These processes will be reviewed and updated upon implementation of new Finance System.  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 investigated. (Aged Debt report)	High	<b>Exchequer Services Team Leader</b>	July 2018	Quote provided by Supplier to produce report. Work scheduled to start to build this report mid November 2018.	Internal Audit to follow up in January 2019.
		8	Credit balances should be reviewed and action taken where appropriate.	Medium	<b>Senior Exchequer Services Assistant</b>	July 2018	No response required – see Internal Audit comments	This is an ongoing process with credit balances being reviewed. Progress will be reviewed during the 2018/19 Internal Audit of Sundry Debtors.

Report		Recommendation		Rating	Officer Responsible	Target Date	Responsible Officer Update ( October 2018)	Internal Audit Comments
		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	No response required – see Internal Audit comments	Dependant on outcome of recommendation 6. Internal Audit to follow up in January 2019.
		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 accounts to ensure that recovery action is taken on a timely basis	Medium	<b>Exchequer Services Team Leader / Senior Exchequer Services Assistant</b>	October 2018	No response required – see Internal Audit comments	Dependant on outcome of recommendation 6. Internal Audit to follow up in January 2019.
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.	Grant officers decision reviewed by Business Focus Manager. Decisions documented and recorded on pipeline.	Implemented

Report		Recommendation		Rating	Officer Responsible	Target Date	Responsible Officer Update ( October 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	Pipeline now reviewed for accuracy. Evidence of review recorded on pipeline.	Implemented

## Appendix C

### Internal Audit Performance

#### Performance Measures:

Performance Measure	2018/19 Quarter 3 Target	Position as at 31.10.18	Comments
Delivery of 2018/19 Audit Plan	65%	27%	Performance below target mainly due to absence of Internal Auditor during Q2. Target should be achieved by the end of Q3.
Percentage of Client Satisfaction with the Internal Audit Service	100%	100%	One client satisfaction questionnaire returned for 2018/19.
Compliance with the Internal Audit Standards	Full	No significant gaps in compliance	
Compliance testing of completed recommendations	90%	100%	

#### Service Plan Actions:

Key Deliverables (Action)	Quarter 3 Milestone	Position as at 31.10.18
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 Q3 self-assessment audit and report findings to Business Improvement Team	To be undertaken during Q3
Complete audits as per risk based audit plan	Complete 65% of audit plan	Since the last update report, no final reports have been issued. Three audits are currently in progress, a further two at report drafting stage and one has been issued for management review.
Quarterly progress reports to Audit and Governance Committee	Progress report to December A&GC	Progress report to be submitted to December 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.

<b>Key Deliverables (Action)</b>	<b>Quarter 3 Milestone</b>	<b>Position as at 31.10.18</b>
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



**NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL**

**AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 5 DECEMBER 2018**

Title of report	<b>TREASURY MANAGEMENT ACTIVITY REPORT APRIL TO OCTOBER 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 454 707 <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 October 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
Consultees	
Background papers	<a href="#">Treasury Management Strategy Statement 2018/19</a> – Council 27 February 2018.

	<a href="#"><u>Treasury Management Activity Report April to August 2018</u></a> – Audit and Governance Committee 10 October 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 year end). This is the second 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. The first covered the reporting period April to August 2018 and was reported to Audit and Governance Committee on 10 October 2018.
- 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 Economic and interest rate forecasts are provided on a regular basis by our treasury advisors (Arlingclose). The summary below is based on the Monetary Policy Committee meeting on 1 November 2018.

In November 2018 the Monetary Policy Committee (MPC) kept Bank Rate at 0.75%. The MPC thinks that, if the economy continues to perform broadly as expected in the November Inflation Report, further increases in Bank Rate over the forecast period would be appropriate to return inflation to the 2% target. The MPC reiterated that any future increases in Bank Rate are likely to be at a gradual pace and to a limited extent.

Based on this gently rising path of Bank Rate and an assumption of a relatively smooth exit from the EU, the MPC expects UK GDP growth to average around 1.75% a year over the forecast period.

The economic outlook will depend significantly on the nature of EU withdrawal, the form of new trading arrangements, the smoothness of the transition to them and the responses of households, businesses and financial markets. The implications for the path of monetary policy will depend on the balance of the effects on demand, supply and the exchange rate. The MPC

judges that the monetary policy response to Brexit, whatever form it takes, will not be automatic and could be in either direction.

Key Issues in the Inflation report:

MPC's key judgements: The projections included in the inflation report are underpinned by four key judgements. 1) Global GDP growth slows to around its potential rate, as financial conditions tighten; 2) net trade and a rebound in business investment support UK activity, while consumption growth is modest; 3) a margin of excess demand builds as demand growth exceeds subdued potential supply growth and 4) domestic inflationary pressures continue to build, while the contributions from energy and import prices dissipate.

Outlook for inflation: CPI inflation fell back to 2.4% in September, having risen in August. Higher import and energy prices have continued to hold inflation above the 2% target, but these pressures are projected to fade. Domestic inflationary pressures are expected to build over the forecast period and the balance of these effects means that inflation is expected to be above the target for most of the forecast period, reaching 2% by the end.

Global economic and financial market developments: global GDP growth has fallen back somewhat from high rates in 2017. Although growth is expected to remain relatively robust in much of the world, and above estimates of potential growth, the outlook has moderated. UK financial conditions have tightened slightly further since August but remain accommodative overall.

Demand and output: UK GDP growth picked up following a temporary slowing at the beginning of the year. Growth is projected to be modest, with the outlook remaining sensitive to the effects of Brexit. Brexit uncertainty continues to weigh on business investment. Real income growth is recovering following the dampening effects of sterling's depreciation, which should support modest consumption growth. Net trade should also continue to support GDP growth, in part reflecting relatively robust global growth.

The labour market and supply: The unemployment rate is expected to remain broadly stable. The MPC judges that supply and demand in the economy are currently broadly in balance. Potential supply growth has been subdued in recent years and is projected to remain below its historical average rate. As a result, the pace at which output can grow without generating inflationary pressures is likely to remain modest.

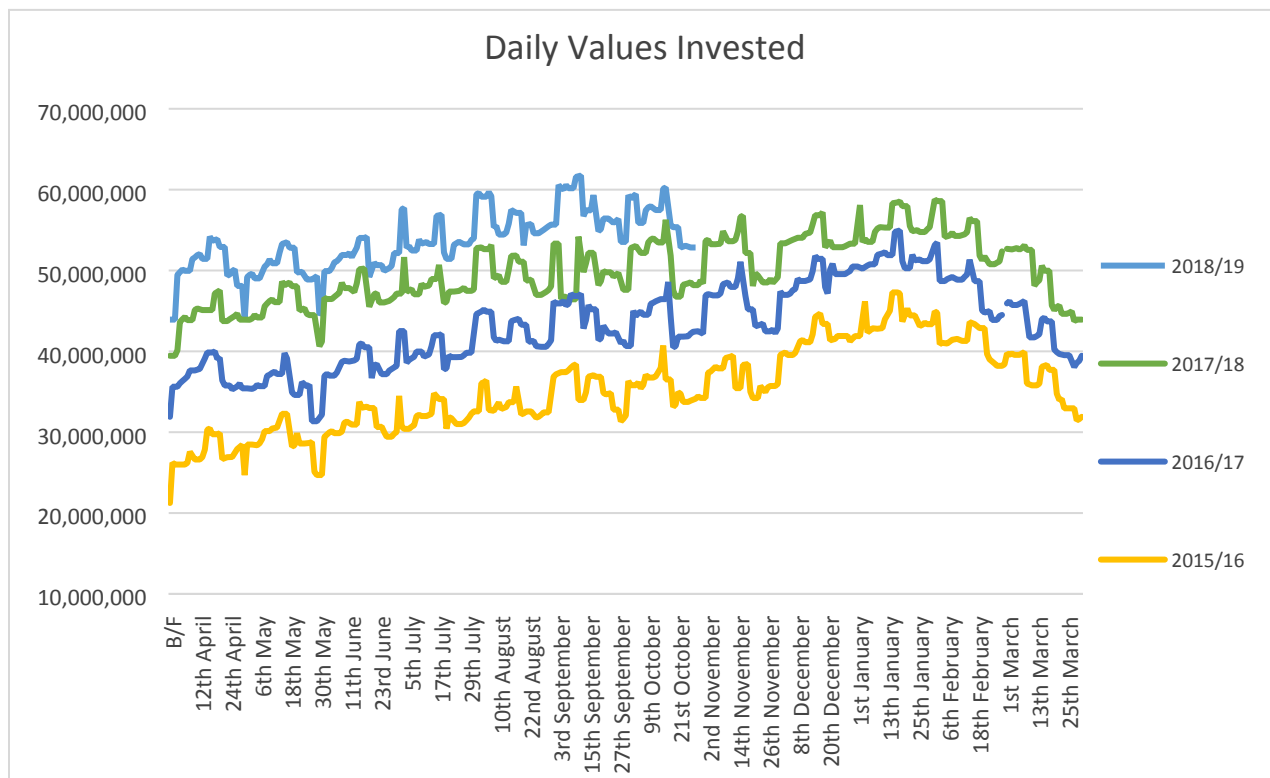
### 3.0 THE COUNCIL'S TREASURY POSITION.

- 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.

	Balance at 01/04/18 £m	Net Movement £m	Balance at 28/10/2018 £m
Long term borrowing - HRA	£74.0	(£0.6)	£73.4
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>(£0.6)</b>	<b>£81.9</b>
Long term investments – greater than 1 year	£12.0	(£2.5)	£9.5
Short term investments – less than 1 year	£29.3	£4.5	£33.8
Pooled funds and externally managed investments*	£2.6	£6.9	£9.5
<b>Total Investments</b>	<b>£43.9</b>	<b>£8.9</b>	<b>£52.8</b>
<b>Net debt</b>	<b>£38.6</b>	<b>(£9.5)</b>	<b>£29.1</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 October 2018, the capacity for investment has increased by £8.9m. 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.
- 3.4 The patterns of income and expenditure are variable and are compared to previous years. The current patterns are in line with the expected trends as shown in the graph below. These patterns are reflected in the council's cash flow projections which is monitored and revised daily as part of the treasury management process.



#### 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.

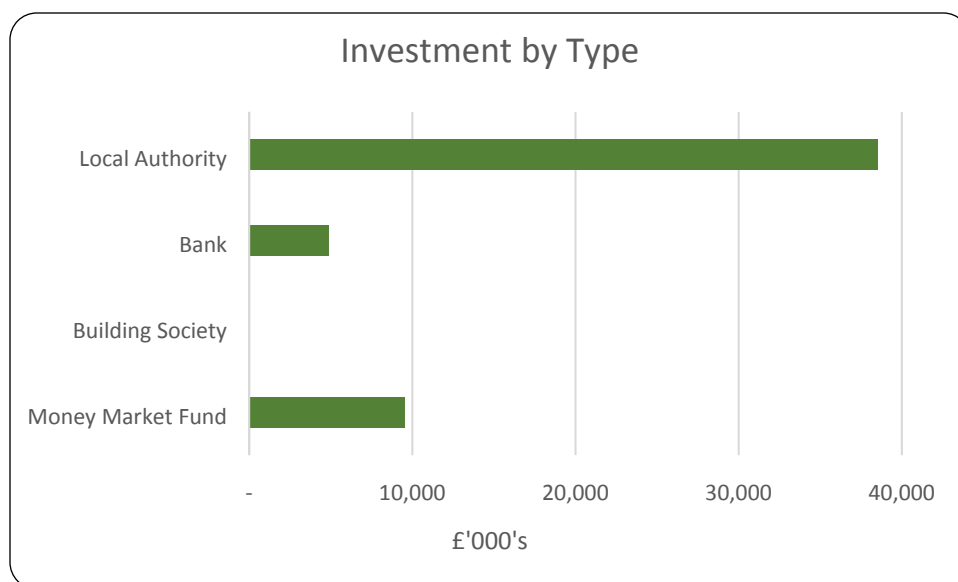
- 4.2 The council's estimated borrowing requirement for 2018/19 is £2.29m. In the two subsequent years, this is estimated to be £10.702m in 2019/20 and £8.989m in 2020/21, as reported in the Treasury Management Strategy Statement 2018/19.
- 4.3 The council has not undertaken any new long-term borrowing 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.
- 4.5 During the reporting period of April to October 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 type 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 0.64% (increased from 0.63% reported in the Treasury Management Activity Report April to August 2018). For comparison purposes, the benchmark return at the end of October 2018 for the average 7-day London Interbank Bid Rate (LIBID) was 0.46% and the average 7 day London Interbank Offered Rate (LIBOR) rate was 0.58%. 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 September 2018. The total rate of return achieved by the council takes into account the full year effect to date and is compared to 57 other district councils and the average of 135 local authorities, the yield is itemised by types of investments. The forecast internal investment return of the council is currently 0.72% and is comparable to 0.78% achieved by 56 other district councils and 0.76% achieved by the average of 136 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 paragraphs 6.5 and 6.6.
- 6.8 There were 68 investments made during the period totalling £122.8m and 66 maturities totalling £113.5m. The average balance held for the period was £53.1m.

- 6.9 Of the investment and maturities, 20 were fixed term investments taken out during the period and 16 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 October 2018 has achieved £292,715 in interest for the financial year. The current forecast that is estimated to be achieved is £340,155.
- 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 £18,427 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 (£321,728) 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

	Budget	Projected
General Fund	£145,300	£204,136
HRA	£83,700	£117,592
<b>Sub-Total</b>	<b>£229,000</b>	<b>£321,728</b>
External Balances	£0	£18,427
<b>Total</b>	<b>£229,000</b>	<b>£340,155</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 October 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 October 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.

## Appendix A

Counterparty	Length	Amount	Rate
Goldman Sachs MMF	Overnight	4,000,000	0.65%
Blackrock MMF	Overnight	3,900,000	0.61%
Aberdeen Asset Management MMF	Overnight	600,000	0.67%
CCLA MMF	Overnight	1,000,000	0.74%
Lloyds Main	Overnight	205,261	0.65%
Bank of Scotland	Overnight	1,395,000	0.65%
Lloyds Notice Account	32 days	250,000	0.75%
Santander Notice Account	95 days	1,495,000	0.85%
Newcastle City Council	1093 days	2,500,000	1.13%
Lancashire County Council	730 days	2,000,000	0.55%
Liverpool City Council	640 days	2,000,000	0.65%
Northumberland County Council	1096 days	3,000,000	0.99%
Thurrock Council	312 days	1,000,000	0.63%
Moray Council	275 days	2,500,000	0.82%
Thurrock Council	276 days	1,000,000	0.80%
Eastleigh Borough Council	277 days	1,500,000	0.70%
Thurrock Council	184 days	2,000,000	0.65%
Fife Council	184 days	1,500,000	0.60%
Lloyds Bank Fixed Term Deposit	185 days	1,500,000	0.75%
Blackpool Borough Council	184 days	2,000,000	0.60%
Thurrock Council	288 days	1,000,000	0.66%
Surrey Heath Borough Council	185 days	1,000,000	0.60%
Lancashire County Council	185 days	1,000,000	0.60%
Walsall Metropolitan Borough Council	238 days	5,000,000	0.60%
Rhondda Cynon Taff CBC	184 days	1,000,000	0.65%
Salford City Council	203 days	2,000,000	0.78%
Leeds City Council	247 days	2,000,000	0.80%
Stirling Council	254 days	1,500,000	0.87%
North Lanarkshire Council	181 days	2,000,000	0.85%
Moray Council	171 days	1,000,000	0.88%
<b>Total</b>		<b>52,845,261</b>	



## Appendix B



### Investment Benchmarking 30 September 2018

NW Leicestershire  
56 English Non-Met Districts Average  
156 LAs Average

Internal Investments	£53.5m	£28.8m	£61.0m
Cash Plus & Short Bond Funds	£0.0m	£2.5m	£2.6m
Strategic Pooled Funds	£0.0m	£11.1m	£9.6m
<b>TOTAL INVESTMENTS</b>	<b>£53.5m</b>	<b>£42.4m</b>	<b>£73.2m</b>

#### Security

Average Credit Score	3.85	4.28	4.38
Average Credit Rating	AA-	AA-	AA-
Average Credit Score (time-weighted)	3.68	4.00	4.10
Average Credit Rating (time-weighted)	AA-	AA-	AA-
Number of Counterparties / Funds	24	15	15
Proportion Exposed to Bail-in	17%	56%	60%

#### Liquidity

Proportion Available within 7 days	11%	35%	41%
Proportion Available within 100 days	52%	58%	66%
Average Days to Maturity	123	88	37

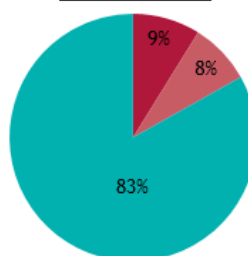
#### Market Risks

Average Days to Next Rate Reset	127	90	61
Strategic Fund Volatility	-	2.3%	3.0%

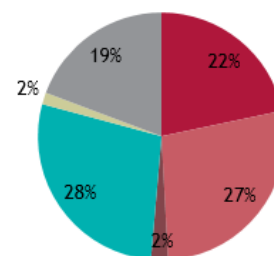
#### Yield

Internal Investment Return	0.72%	0.78%	0.76%
Cash Plus & Short Bond Fund Return	-	0.57%	0.55%
Strategic Funds - Income Return	-	3.18%	4.23%
Strategic Funds - Capital Gains/Losses	-	-0.28%	0.09%
Strategic Funds - Total Return	-	2.90%	4.32%
Total Investments - Income Return	0.72%	1.37%	1.17%
<b>Total Investments - Total Return</b>	<b>0.72%</b>	<b>1.41%</b>	<b>1.25%</b>

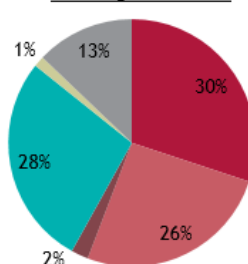
NW Leicestershire



English Non-Met Districts



All Arlingclose Clients



#### 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.

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## 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:



	<b>31.03.17 Actual £m</b>	<b>31.03.18 Estimate £m</b>	<b>31.03.19 Forecast £m</b>	<b>31.03.20 Forecast £m</b>	<b>31.03.21 Forecast £m</b>
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 under-estimated 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 – WEDNESDAY, 5 DECEMBER 2018**

Title of report	<b>PROGRESS UPDATE IN RESPECT OF IMPROVEMENTS IDENTIFIED THROUGH THE ANNUAL REVIEW OF 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>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.ashe@nwleicestershire.gov.uk">tracy.ashe@nwleicestershire.gov.uk</a></p>
Purpose of report	To update members in respect of improvements identified through the annual review of the Annual Governance Statement
Reason for Decision	To ensure members of the Committee are aware of the progress of improvements.
Council Priorities	Value for Money.
Implications:	
Financial/Staff	None.
Link to relevant CAT	None.
Risk Management	Not required.
Equalities Impact Assessment	Not required.
Human Rights	None identified.
Transformational Government	Not applicable.
Consultees	None

Background papers	<a href="http://prod-modgov:9070/documents/s18210/Annual%20Governance%20Statement%20201718%20Audit%20and%20Governance%20Committee%20Report.pdf?\$LO\$=1">http://prod-modgov:9070/documents/s18210/Annual%20Governance%20Statement%20201718%20Audit%20and%20Governance%20Committee%20Report.pdf?\$LO\$=1</a>
Recommendations	<b>THAT MEMBERS NOTE AND COMMENT ON THE REPORT</b>

## **1.0 BACKGROUND**

- 1.1 Members reviewed and approved the Annual Governance Statement (AGS) in respect of the 2017/18 year at its meeting on 10 October 2018.
- 1.2 A total of 14 improvement areas identified through this review (6 of which were carried forward from 2016/17), where it was recognised that the Council could strengthen its governance arrangements. These improvements were scored as fair, meaning that satisfactory governance exists in these areas but improvements are required to meet good governance. There were no significant issues identified for 2017/18.
- 1.3 It has been agreed that Committee members will review progress against improvement areas 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.
- 1.4 This update is the first update members will receive on improvements identified in 2017/18.

## **2.0 PROGRESS MADE IN RESPECT OF IMPROVEMENT AREAS 2017/18**

- 2.1 Of the 14 improvements identified, 3 are complete, 8 are underway and the remaining 3 have not yet started.
- 2.2 Full details can be found in Appendix 1.

**PROGRESS MADE IN RESPECT OF IMPROVEMENTS IDENTIFIED THROUGH THE REVIEW OF  
THE ANNUAL GOVERNANCE STATEMENT 2017/18**

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<b>Improvement Action</b>	<b>Related Principle(s)</b>	<b>Officer Responsible</b>	<b>Status – 5 December 2018</b>	<b>Update – 5 December 2018</b>
Review of Equality policy	A	Head of HR and OD	Underway	Policy has been agreed by CLT and the Equalities and Access Group. Currently out to consultation before going to PDG in February 2019.
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)	B, D	Head of Legal and Commercial	Not started	Officer Responsible currently under review.
Development of commercial strategy, to include review of need for a partnership working framework	C	Head of Legal and Commercial	Complete	Commercial strategy agreed by Cabinet in October 2018. The Council's approach to managing contracts/partnerships and any wholly owned companies will be considered as part of the commercial strategy. Implementation under way.
Review of the Business Improvement function	D	Head of HR and OD	Complete	The team has been restructured from 01/09/18 and renamed the Organisation Performance Team.
Consider introduction of public consultation on budget proposals	D	Head of Finance	Underway	Approach to public consultation on budget proposals in the early stages of development for 2020/21 budget setting. Annual Statutory consultation will be undertaken on 2019/20 draft Budget as per previous years.
Partnership Framework to be developed (as above)	E	Head of Legal and Commercial	Underway	The Council's approach to managing contracts/partnerships and any wholly owned companies will be considered as part of the commercial strategy
Develop and implement People Plan	E	Head of HR and OD	Underway	Following consultations with CLT, ELT and trade unions the plan has been scrutinised by PDG and will go to Cabinet in December 2018. The associated action plan covers activities in 2019.
Corporate Asset Management Strategy required to go with HRA Asset Management Strategy	E	Head of Housing and Assets	Underway	In development, scheduled for Cabinet approval Quarter 4 2018/19.
Implementation of In-Phase	F	Head of HR and OD	Underway	Following a pilot scheme with Team managers the software will be used for Team Planning and performance reporting from April 2019. A report on the further implementation will be considered by CLT in February 2019.

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	F	Head of Finance	Not started	Additional support required to carry out this significant piece of work and seeking support from colleagues at Leicester City Council.
Embed finance business partnering model, including review of effectiveness and procure new finance system	F	Head of Finance	Underway	New finance business partnering service delivery model successfully launched in July 2018 with review scheduled towards the end of the 2018/19 financial year.  Work to procure a new finance system due to commence early in 2019. Recruitment process underway to appoint a 12m fixed term Project Manager to support.
Implement actions to address issues identified through Internal Audit of Sundry Debtors	F	Head of Finance	Underway	Actions underway as per Internal Audit report.
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.	F	Head of Customer Services	Underway	Review has been completed.  Measures have been built into the ICT Team plan to review 3 <sup>rd</sup> party controls and SOC 2 reports, throughout the year and included as part of the ICT monthly performance submission.
Review and strengthen management and reporting arrangements for the Revenues and Benefits Partnership	G	Head of Customer Services	Complete	This is now complete, the new Head of Customer Services, attends multiple management boards and committees. Equally there is now Chief Exec representation on the joint committee and operational engagement on the operations board. All layers of management are now reflected.

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



**NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL**

**AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 5 DECEMBER 2018**

Title of report	<b>CORPORATE RISK UPDATE</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 454781 <a href="mailto:tracy.bingham@nwleicestershire.gov.uk">tracy.bingham@nwleicestershire.gov.uk</a></p>
Purpose of report	To receive the Quarter 2 Corporate Risk Update
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>THAT THE AUDIT AND GOVERNANCE COMMITTEE NOTES THE QUARTER 2 CORPORATE RISK UPDATE.</b>

## **1.0 BACKGROUND**

- 1.1 Cabinet 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 The two most recent risks that have been added to the Risk Register are 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.

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	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.	4	4	16	Head of Finance	Strategic Director of Housing and Customer	Monthly management reviews monitor actual spend against budgets and forecast to the end of the year.	4	1	4	Stable

	finances		<p>Poor budget planning / management.</p> <p>Internal financial systems and regulations not being properly applied.</p>					Services	<p>Monthly reporting and challenging at CLT, and reported to Cabinet quarterly Sound policies and procedures are in place.</p> <p>Financial planning processes have been documented and are reviewed regularly. Internal and External audit of systems and accounts. Membership of CIPFA and engagement of Arling Close gives access to specialist advice, analysis and expertise.</p>				
3	<b>REPUTAIONAL/ 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.	<p>Failure to horizon scan and interpret future needs in</p> <p>Inability to recruit to vacancies / retain staff.</p>	4	2	8	Head of HR and OD	Chief Executive	<p>Advance planning will mitigate this risk;</p> <p>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.</p> <p>Market conditions are tested through recruitment processes.</p> <p>The Council can offer a package of additional benefits to enhance the recruitment offer.</p> <p>The Council has developed innovative partnering relationships with other sectors including the private sector to make posts uniquely attractive.</p> <p>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'.</p>	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.	<p>Failure to monitor contractors appropriately.</p> <p>Legal and procurement teams not consulted when contractors are engaged.</p>	3	4	12	Finance Team Manager. All Team Managers.	All Heads of Service	<p>Corporate procurement officer and legal team to support where necessary on contract management.</p> <p>Policies and procedures are in place. Reserve contractor in place where appropriate.</p>	3	2	6	Increasing *Change due to departure of previous Procurement Manager.

			Loss of key staff or supplier.  Procurement procedures are not followed.						A Senior Procurement Officer oversees a procurement planning process.  Training programme in place for staff.				
5	<b>LEGAL / TECHNOLOGICAL</b> <b>Loss or unlawful use of personal data constituting breach of data protection legislation</b>	Monetary penalties from ICO, adverse publicity, private litigation and personal criminal liability of officers.	Systems not in place to protect sensitive data.  Staff are not properly trained in managing information, and do not follow internal procedures.	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.  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.	3	2	6	Stable
6	<b>LEGAL / REPUTATIONAL / COMMERCIAL</b> <b>Failure to respond to an emergency in an appropriate manner</b>	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> <b>Infiltration of ICT systems</b>	"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.	3	2	6	Increasing

									Improved business recovery arrangements have been implemented to minimise recovery time. Accreditation to Cyber Essentials Plus and the Public Services Network.				
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	Chief Executive	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	<b>LEGAL / POLITICAL / REPUTATIONAL</b> 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	<b>FINANCIAL / LEGAL / REPUTATIONAL</b> 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.	3	2	6	Stable

									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.				
11	<b>FINANCIAL / COMMERCIAL / ECONOMIC</b> <b>The Council is subject to a reduction in income</b>	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.	<b>3</b>	<b>4</b>	<b>12</b>	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.	<b>3</b>	<b>3</b>	<b>9</b>	<b>Increasing</b>
12	<b>POLITICAL / ORGANISATIONAL</b> <b>The Council is affected by Local Government Reorganisation</b>	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	<b>4</b>	<b>3</b>	<b>12</b>	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.	<b>3</b>	<b>3</b>	<b>9</b>	<b>Stable</b>

13	<b>POLITICAL / ORGANISATIONAL</b> <b>The Council is affected by the UK's departure from the EU, including a potential 'no deal' Brexit</b>	<p>The UK's departure from the EU, including an inability to agree the terms of the exit by 31 March 2019 could lead to:</p> <ul style="list-style-type: none"> <li>- increase in checks on goods by Environmental Officers at East Midlands Airport meaning increase in resources / costs.</li> <li>- 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.</li> <li>- potential need for increased storage facilities at entry / exit points and associated increases in freight traffic, putting pressure on local infrastructure</li> <li>- potential withdrawal of access to EU wide IT systems (e.g. relating to imported foodstuffs)</li> <li>-diversion of staff resources into contingency planning.</li> </ul>	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>	<p>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</p>
<b>2 Medium</b>	<p>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</p> <p>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</p>



<b>3 High</b>	Loss of a critical service for one week or more with signifcant 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

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**NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL**

**AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 5 DECEMBER 2018**

Title of report	<b>CIPFA'S PRACTICAL GUIDE FOR LOCAL AUTHORITIES AND POLICE (2018 EDITION) - SELF-ASSESSMENT OUTCOME REPORT</b>
Contacts	Councillor Nick Rushton 01530 412059 <a href="mailto:nicholas.rushton@nwleicestershire.gov.uk">nicholas.rushton@nwleicestershire.gov.uk</a>
Purpose of report	To update the Committee on the work to review the effectiveness of the Audit and Governance Committee.  To ensure that the Committee are confident and equipped to provide challenge and assurance to the Council and to identify training needs for members in fulfilling their roles.
Council priorities	
Implications:	
Financial/Staff	Any training can be delivered within existing budgets.
Link to relevant CAT	None.
Risk Management	None.
Equalities Impact Screening	Not applicable.
Human Rights	Not applicable.
Transformational Government	Not applicable.
Consultees	Audit and Governance Committee three member working group, Head of Finance / S151 Officer, Corporate Leadership Team.
Background papers	<a href="#">Report to Audit and Governance Committee - 25.07.18</a>
Recommendations	<b>THAT THE COMMITTEE:</b>  <b>1. NOTE THE WORK OF THE WORKING GROUP.</b>  <b>2. AGREE THE ACTION PLAN (APPENDIX B).</b>

	<p><b>3. RECOMMEND THE REVISED TERMS OF REFERENCE FOR THE AUDIT AND GOVERNANCE COMMITTEE TO COUNCIL FOR ADOPTION AT ITS MEETING ON 26 FEBRUARY 2019.</b></p>
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## **1. INTRODUCTION**

- 1.1 At its meeting on 25 July 2018, the Audit and Governance Committee considered the Chartered Institute of Public Finance & Accountancy (CIPFA) revised and updated edition of the document *Audit Committees: Practical Guidance for Local Authorities and Police*.
- 1.2 The revised version included updates to the core functions of the Committee and pulled together, in one document, all relevant changes in legislation and governance frameworks introduced since 2013. Any changes which have impacted the work of the Audit and Governance Committee or required changes to the way that information is presented have already been addressed by the Council in respect of the:
  - Annual Governance Statement.
  - Public Sector Internal Audit Standards.
  - Recommendations made following an internal audit of the Council's arrangements for countering fraud and corruption.
  - Adoption of the Public Sector Audit Arrangements framework for appointing external auditors.
  - Adoption of the Local Code of Corporate Governance consistent with the CIPFA/Solace framework "Delivering Good Governance in Local Government".
- 1.3 The Committee were advised that the Guidance continued to include a strong focus on the factors that supported improvement in the working of audit committees. This included the knowledge and skills that Audit Committee members require and an emphasis on where the Audit Committee can add value. It also provided practical support in evaluating the existing Committee and planning any improvements identified.

## **2. SELF-ASSESSMENT PROCESS**

- 2.1 Appendix C of the Guidance sets out a knowledge and skills framework for Audit Committee members and the Committee Chair. A distinction is made between core areas of knowledge that all Audit Committee members should seek to acquire and a range of specialisms that can add value to the Committee.
- 2.2 At the meeting of the Audit and Governance Committee in July 2018 it was agreed that a small working group comprising of three members, working with the Audit Manager, the Head of Legal and Commercial Services and Head of Finance would lead this work. This would involve conducting both an assessment of the Committee's effectiveness, using the assessment tools within the CIPFA Guidance and a training needs analysis which was to be distributed to all members for completion.
- 2.3 The 3 members of the working group were Councillors Sheahan, Hoult and Harrison. The working group met in September and October 2018 to review the outcomes of the completed

knowledge and skills questionnaires and to undertake a self-assessment of the Committee's effectiveness.

### **3. KEY FINDINGS AND OUTCOMES**

- 3.1 Prior to the first meeting of the working group the knowledge and skills questionnaire was completed by four members of the Audit and Governance Committee and further responses were considered from the working group at the September meeting. The level of responses received is considered representative of the views of the Committee as a whole.
- 3.2 A summary of responses received and the areas for improvement identified are attached at Appendix A.
- 3.3 The main areas identified for which training is required as part of the member induction process and on an ongoing basis are:
  - Organisational Knowledge
  - Audit Committee Role and Functions
  - Governance
  - Internal Audit Protocol
  - Financial Management and Accounting
  - External Audit
  - Risk Management
  - Counter Fraud
  - Treasury Management
- 3.4 Following the self-assessment of the effectiveness of the Audit and Governance Committee a number of areas for improvement were identified. Actions have been built in to the summary action plan below and detailed findings are included at Appendix B.
- 3.5 Following review and approval at both CLT and the Audit and Governance Committee, the action plan will be finalised and training requirements identified will feed into the member induction programme following the election in 2019 with additional training taking place throughout the year.
- 3.6 As part of the self-assessment exercise the Terms of Reference for the Audit and Governance Committee have been reviewed and updated. They will require approval by Council in February 2019 and subsequent incorporation to the Constitution. The draft Terms of Reference are attached at Appendix C for consideration.
- 3.7 In addition it is proposed that the Audit and Governance Committee produce an Annual Report to reflect on the work undertaken by the Committee during the year. The Head of Legal and Commercial Services has, for a number of years, produced an annual report on members' conduct which summarises the work of the Committee in connection with the Standards regime. This report is traditionally presented by the Chair of the Committee at Council.
- 3.8 It is proposed that the next annual report for 2018/19 will incorporate the work of the Committee in respect of its audit and standards functions. It will be a joint report of the Head

of Finance and Head of Legal and Commercial Services and will continue to be presented by the Chair of the Committee to full Council. This recognises the broad remit of the Committee and the important role that the Committee plays in good governance and the assurance process of the Council. Officers will seek to tie in the timing of the report with the production of other significant corporate documents such as the end of year report and Council Delivery Plan and work to align the reporting timetable.

## AUDIT COMMITTEE MEMBERS – KNOWLEDGE AND SKILLS FRAMEWORK

### 1. CORE AREAS OF KNOWLEDGE

KNOWLEDGE AREA	DETAILS OF CORE KNOWLEDGE REQUIRED	HOW THE AUDIT COMMITTEE MEMBER IS ABLE TO APPLY THAT KNOWLEDGE	SELF ASSESSMENT (KNOWLEDGE) (Please indicate with X in the relevant box)			Areas for Improvement	Proposed Actions
			YES	PARTLY	NO		
1. Organisational Knowledge	<p>An overview of the governance structures of the authority and decision-making processes.</p> <p>Knowledge of the organisational objectives and major functions of the authority.</p>	This knowledge will be core to most activities of the audit committee including review of the AGS, internal and external audit reports and risk registers.	3	1		<p><i>Members require more information regarding governance structure and how the A &amp; G Committee fits into that structure.</i></p>	<p><i>Member induction programme to include</i></p> <ul style="list-style-type: none"> <li><i>Generic overview of governance structures for all members. Additional focus on how the Audit &amp; Governance Committee fits into that structure for all members of A &amp; G Committee.</i></li> <li><i>Consider improving accessibility and insight into other committees e.g webcasting</i></li> </ul>
			4				

## AUDIT COMMITTEE MEMBERS – KNOWLEDGE AND SKILLS FRAMEWORK

<p>2. Audit Committee role and functions</p>	<p>An understanding of the audit committee's role and place within the governance structures. Familiarity with the committee's terms of reference and accountability arrangements</p> <p>Knowledge of the purpose and role of the audit committee</p>	<p>This knowledge will enable the audit committee to prioritise its work in order to ensure it discharges its responsibilities under its terms of reference and to avoid overlapping the work of others.</p>	<p>3</p> <p>3</p>	<p>1</p> <p>1</p>		<p><i>Members require more information to improve understanding of the committee's role and how it should discharge its responsibilities.</i></p>	<p><i>Member Induction to include</i></p> <ul style="list-style-type: none"> <li><i>A review of the Terms of Reference for the A &amp; G Committee so that members have an idea of what is involved</i></li> <li><i>Regular training programme to be introduced ( 2-3 sessions per year) to include worked examples of where an issue has been raised , how does this go through the system.</i></li> </ul>
<p>3. Governance</p>	<p>Knowledge of the seven principles of the CIPFA/Solace Framework and the requirements of the AGS</p> <p>Knowledge of the local code of governance</p>	<p>The Committee will review the local code of governance and consider how governance arrangements align to the principles in the framework</p> <p>The Committee will plan the assurances it is to receive in order to adequately support the AGS</p>	<p>1</p>	<p>3</p>		<p><i>Members need to be signposted to key documents/frameworks to ensure that they are reviewing the right work and obtaining relevant assurances to be able to sign off the Annual Governance Statement.</i></p>	<ul style="list-style-type: none"> <li>Appointed members should, , be provided with copies or links to core documents that underpin the work of the committee before attending meetings.</li> </ul> <p>Member induction should include training around:</p> <ul style="list-style-type: none"> <li>Awareness of where to look for details if needed</li> <li>Know what is important and how it aligns to framework</li> </ul>



## AUDIT COMMITTEE MEMBERS – KNOWLEDGE AND SKILLS FRAMEWORK

		The committee will review the AGS and consider how the authority is meeting the principles of good governance.				
4. Internal Audit	<p>An awareness of the key principles of the Public Sector Internal Audit Standards (PSIAS) and the Local Government Application Note (LGAN)</p> <p>Knowledge of the arrangements for delivery of the internal audit service in the authority and how the role of the head of internal audit is fulfilled.</p>	<p>The audit committee has oversight of the internal audit function and will monitor its adherence to professional internal audit standards</p> <p>The audit committee will review the assurances from internal audit work and will review the risk based audit plan. The Committee will also receive the annual report, including an opinion and information on conformance with professional standards.</p> <p>In relying on the work of internal audit, the committee will need to be confident that</p>	1	3		<p>Members require more information regarding understanding Internal Audit protocol and procedures.</p> <ul style="list-style-type: none"> <li>Members induction to include an overview of Internal Audit protocol and procedures, including reporting and follow up of recommendations.</li> <li>Ongoing training to include an in depth review of an Internal Audit report as a case study, to assist members in understanding findings, recommendations and rationale for risk ratings assigned .</li> <li>Members to meet with Internal Audit Manager bi-annually to include a meeting prior to approving the Internal Audit Plan so that members fully understand the risk based methodology and criteria for</li> </ul>

## AUDIT COMMITTEE MEMBERS – KNOWLEDGE AND SKILLS FRAMEWORK

		<p>professional standards are being followed.</p> <p>The audit committee chair is likely to be interviewed as part of any external quality assessment and the committee will receive the outcome of the assessment and action plan.</p>				<p>selecting audit reviews. Opportunity to discuss concerns. Trends.</p> <ul style="list-style-type: none"> <li>Next review will be 2019/20. To ensure that new members are fully briefed regarding this process as part of Members induction.</li> </ul>
5. Financial Management and Accounting	<p>Awareness of the financial statements that a local authority must produce and the principles it must follow to produce them.</p> <p>Understanding of good financial management principles.</p> <p>Knowledge of how the organisation meets the requirements of the</p>	<p>Reviewing the financial statements prior to publication, asking questions</p> <p>Receiving the external audit report and opinion on the financial audit</p> <p>Reviewing both external and internal audit recommendations relating to financial management and controls</p>	2	2	1	<p>Members require clarification around the how the organisation meets the requirements of the role of the CFO, as required by The Role of the Chief Financial Officer in Local Government (CIPFA, 2016) and how this is met when reviewing the AGS.</p> <p>Members Induction to include training on Financial Management and Accounting . Head of Finance also to refer to this area during informal session on Statement of Accounts with members on 26/09/18.</p>

## AUDIT COMMITTEE MEMBERS – KNOWLEDGE AND SKILLS FRAMEWORK

	role of the CFO, as required by <b><i>The Role of the Chief Financial Officer in Local Government (CIPFA, 2016)</i></b>	The audit committee should consider the role of the CFO and how this is met when reviewing the AGS.					
6. External Audit	<p>Knowledge of the role and functions of the external auditor and who currently undertakes this role.</p> <p>Knowledge of the key reports and assurances that external audit will provide</p> <p>Knowledge about arrangements for the appointment of auditors and quality monitoring undertaken</p>	<p>The audit committee should meet with the external auditor regularly and receive their reports and opinions.</p> <p>Monitoring external audit recommendations and maximising benefit from audit process</p> <p>The audit committee should monitor the relationship between the external auditor and the authority and support the delivery of an effective service.</p>	3	1		<p>Members require more training in this area to enable them to challenge and debate.</p> <p>More information required regarding the appointment of External Auditors and performance/quality monitoring undertaken.</p>	<ul style="list-style-type: none"> <li>Members induction to include training on the role and functions of external audit and arrangements for the appointment of auditors.</li> <li>Members to meet with the External Auditors bi-annually outside of A &amp; G Committee meetings.</li> </ul>

## AUDIT COMMITTEE MEMBERS – KNOWLEDGE AND SKILLS FRAMEWORK

7. Risk Management	<p>Understanding of the principles of risk management, including linkage to good governance and decision making</p> <p>Knowledge of the risk management policy and strategy of the organisation</p> <p>Understanding of risk governance arrangements including the role of members and of the audit committee.</p>	<p>In reviewing the AGS, the committee will consider the robustness of the authority's risk management arrangements and should also have awareness of the major risks the authority faces</p> <p>Keeping up to date with the risk profile is necessary to support the review of a number of audit committee agenda items, including the risk-based internal audit plan, external audit plans and the explanatory foreword of the accounts. Typically, risk registers will be used to inform the committee.</p> <p>The committee should also review reports and</p>	1	3		<p>Members require further information around how risks are managed and understanding the risk management reports.</p> <p>Further assurances required regarding the assurance framework for Risk Management</p>	<ul style="list-style-type: none"><li>• Risk Management Training to be provided to all members of the A &amp; G Committee.</li><li>• Consider Internal Audit of Risk Management for the 2019/20 Internal Audit Plan. How are risks managed</li></ul>

## AUDIT COMMITTEE MEMBERS – KNOWLEDGE AND SKILLS FRAMEWORK

		action plans to develop the application of risk management practice.					
8. Counter Fraud	<p>An understanding of the main areas of fraud and corruption risk to which the organisation is exposed</p> <p>Knowledge of the principles of good fraud risk management practice in accordance with the <b>Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014)</b></p>	<p>Knowledge of fraud risks and good fraud risk management practice will be helpful when the committee reviews the organisation's fraud strategy and receives reports on the effectiveness of that strategy.</p> <p>An assessment of arrangements should support the AGS and knowledge of good fraud risk management practice will support the audit committee member in reviewing that assessment.</p>	2	1	1		<p>To build Fraud Awareness training into Member Induction programme and ongoing training .</p> <p>The Anti Fraud &amp; Corruption framework is currently being reviewed (update to be provided to A &amp; G Committee on 10/10/18). This will include a review of the organisations fraud strategy and associated policies and consider an annual report to committee regarding the controls in place to ensure management of fraud risks and adherence to the CIPFA code of practice.</p>
9. Values of good governance	<p>Knowledge of the Seven Principles of Public Life</p> <p>Knowledge of the authority's key arrangements to</p>	<p>The audit committee member will draw on this knowledge when reviewing governance issues and the AGS</p>	2	2		Members would like more information in this area.	Code of Conduct training Bulletin – updates /changes in law Case Studies
			2	2			

## AUDIT COMMITTEE MEMBERS – KNOWLEDGE AND SKILLS FRAMEWORK

	<p>uphold ethical standards for both members and staff</p> <p>Knowledge of the whistleblowing arrangements in the authority</p>	<p>Oversight of the effectiveness of whistleblowing will be considered as part of the AGS. The audit committee member should know to whom concerns should be reported</p>	2	2		<p>To include in member induction training .</p> <p>Review schedule of all Corporate Governance Policies and ensure members know how to access them if required.</p>
10. Treasury Management (If within the Terms of Reference of the Committee to provide Scrutiny).	<p>Effective Scrutiny of Treasury Management is an assessment tool for reviewing the arrangements for undertaking scrutiny of treasury management. The key knowledge areas are:</p> <ul style="list-style-type: none"> <li>Regulatory requirements</li> <li>Treasury risks</li> <li>The organisation's</li> </ul>	<p>Core knowledge on treasury management is essential for the committee undertaking the role of scrutiny.</p>	2	2	<p>Members require more information and training in this area.</p> <p>What do members see to be able to provide Scrutiny on strategy v operational details</p>	<p>Training on</p> <ul style="list-style-type: none"> <li>What is the Treasury Function ?</li> <li>How to understand reserves?</li> <li>Investment Strategy v's what actually happens operationally</li> </ul> <p>Training to be included within Local Government Finance Training (at induction and ongoing)</p>

## AUDIT COMMITTEE MEMBERS – KNOWLEDGE AND SKILLS FRAMEWORK

	treasury management strategy <ul style="list-style-type: none"> <li>The organisation's policies and procedures in relation to treasury management</li> </ul>						
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## 2. CORE SKILLS

SKILLS	KEY ELEMENTS	HOW THE AUDIT COMMITTEE MEMBER IS ABLE TO APPLY THE SKILL	SELF ASSESSMENT (SKILLS ) (Please indicate with X in the relevant box)			TRAINING REQUIREMENTS	
			YES	PARTLY	NO		

## AUDIT COMMITTEE MEMBERS – KNOWLEDGE AND SKILLS FRAMEWORK

88	Strategic thinking and understanding of materiality	Able to focus on material issues and overall position, rather than being side tracked by detail.	When reviewing audit reports, findings will include areas of higher risk or materiality to the organisation, but may also highlight more minor errors or control failures. The audit committee member will need to pitch their review at an appropriate level to avoid spending too much time on detail.	3	1	More training required regarding understanding how an expert/professional would approach issues .  Understanding professional judgement	<ul style="list-style-type: none"> <li>Ongoing training to include an in depth review of an Internal Audit report as a case study, to assist members in understanding findings, recommendations and rationale for risk ratings assigned and to build confidence with regard to asking questions/ challenging reports .</li> <li>Consideration to be given to issuing Higher risk (Grade 3) reports to members of the Audit &amp; Governance Committee (<b>outside of papers – not public documents</b>)</li> </ul>
	Questioning and constructive challenge	Able to frame questions that draw out relevant facts and explanations  Challenging performance and seeking explanations while avoiding hostility or grandstanding	The audit committee will review reports and recommendations to address weaknesses in internal control.  The audit committee member will seek to understand the reasons for weaknesses and ensure a solution is found.	2	2	Members need to understand where they need to ask questions in order to discharge responsibilities and achieve desired outcomes	<ul style="list-style-type: none"> <li>Consider extending the Terms of Reference to explicitly allow the Committee to request attendance of relevant officers to A &amp; G Committee where required.</li> </ul>
	Focus on Improvement	Ensuring there is a clear plan of action and allocation of responsibility.	The outcome of the audit committee will be to secure improvements to the governance, risk management or control	3	1	Assurance process for risk management	As per Section 7 above



## AUDIT COMMITTEE MEMBERS – KNOWLEDGE AND SKILLS FRAMEWORK

		<p>of the organisation , including clearly defined actions and responsibilities</p> <p>Where errors or control failures have occurred, then the audit committee should seek assurance that appropriate action has been taken.</p>					
Able to balance practicality against theory	Able to understand the practical implications of recommendations to understand how they might work in practice.	The audit committee should seek assurances that planned actions are practical and realistic	4			N/A	N/A
Clear communication skills and focus on the needs of users	Support the use of plain English in communications , avoiding jargon, acronyms, etc.	The audit committee will seek to ensure that external documents such as the AGS and the narrative report in the accounts are well written for a non-expert audience	4			N/A	N/A
Objectivity	Evaluate information on the basis of evidence presented and avoiding bias or subjectivity	The audit committee will receive assurance reports and review risk registers. There may be differences of opinion about the	3	1			<p>As above :</p> <p>Ongoing training for A &amp; G Committee members to include an in depth review of an Internal Audit report as a case</p>

## AUDIT COMMITTEE MEMBERS – KNOWLEDGE AND SKILLS FRAMEWORK

		significance of risk and the appropriate control responses and the committee member will need to weigh up differing views.				study, to assist members in understanding findings, recommendations and rationale for risk ratings assigned and to build confidence with regard to asking questions/ challenge reports
Meeting Management skills	Chair the meetings effectively: Summarise issues raised, ensure all participants are able to contribute, focus on the outcome and actions from the meeting.	These skills are essential for the audit committee chair to help ensure that meetings stay on track and address the items on the agenda. The skills are desirable for all other members.	3	1	Chairing skills – The chair needs to be able to engage the committee and encourage discussion	To be included within Member Induction programme

### 3. ADDITIONAL SPECIALIST KNOWLEDGE

The Cipfa guidance also makes reference to areas of specialist knowledge that will add value to the audit committee e.g. Accountancy, Internal Audit, IT systems and governance. As this area of the guidance is more aligned to the recruitment of independent members it has not been included within this self-assessment document. The CIPFA guidance also applies to Police bodies who are required to have an audit committee. It is common practice to have independent non-executive directors on a Police committee and they are often recruited with particular specialisms.

Whilst not considered to be a core requirement, collation of such information may be considered at a future date to assist in demonstrating added value in relation to the work undertaken by the Audit & Governance Committee. Additional specialist knowledge in these areas may assist in enhancing engagement between lay members and officers and improving understanding around the risks and challenges within service areas.

## AUDIT COMMITTEE MEMBERS – KNOWLEDGE AND SKILLS FRAMEWORK

### SUMMARY ACTION PLAN

Ref:	Action	Assigned to:	Timescale
1.	<p>Introduced a formalised Member Induction Programme to include</p> <p>For all members :</p> <ul style="list-style-type: none"> <li>• Organisational Knowledge</li> <li>• Governance</li> <li>• Strategic thinking and understanding of materiality</li> <li>• Questioning and constructive challenge</li> <li>• Meeting Management Skills</li> </ul> <p>For Audit &amp; Governance committee members</p> <ul style="list-style-type: none"> <li>• Organisational Knowledge – <i>(Additional focus on how the Audit &amp; Governance Committee fits into the Governance structure)</i></li> <li>• Audit Committee Role &amp; Functions</li> <li>• Governance</li> <li>• Internal Audit (PSIAS, Internal Audit protocol)</li> <li>• Local Government Finance ( Financial Management &amp; Accounting (including Treasury Management))</li> <li>• External Audit</li> <li>• Risk Management</li> <li>• Counter Fraud</li> </ul>	<p>Democratic Services in conjunction with</p> <ul style="list-style-type: none"> <li>• Head of Finance</li> <li>• Internal Audit Manager</li> <li>• Head of Legal &amp; Commercial Services</li> <li>• Strategic Director of Housing &amp; Customer Services.</li> </ul>	May 2019

## AUDIT COMMITTEE MEMBERS – KNOWLEDGE AND SKILLS FRAMEWORK

2.	Review schedule of all Corporate Governance Policies and ensure members know how to access them if required.	Head of Legal and Commercial Services / Legal Services Team Manager	TBC
3.	Appointed members to be provided with copies or links to core documents that underpin the work of the committee before attending meetings.	Democratic Services	December 2018 (for existing members) and on induction of new members 2019
4.	Additional training sessions to be held 2-3 times per year to include: (See Table 1 for potential training areas).	Officers / Internal Audit/External Audit	TBC
5.	Consideration to be given to issuing Higher risk (Grade 3) reports to members of the Audit & Governance Committee ( outside of papers – not public documents)	To be considered by CLT	TBC
6.	The Chair and members of the A & G Committee should have the opportunity to meet with both the Internal Audit Manager and External Audit Manager outside of the Committee cycle.	A & G Committee – As requested	TBC ( bi-annually) /as required
7.	The Terms of reference (TOR) for the A & G Committee should be reviewed and updated in line with CIPFA recommended TOR.	A & G Committee Working Group	October 2018
8.	Where possible reports presented to the A & G Committee to include an overview within the report or presentation to members providing details regarding the purpose of the report, how the report was compiled , impact etc;	Officers of the A & G Committee	December 2018
9.	Consideration should to be given to improving accessibility and insight regarding other committees (e.g web casting)	TBC	TBC

## AUDIT COMMITTEE MEMBERS – KNOWLEDGE AND SKILLS FRAMEWORK

10.	The A & G Committee should produce an annual report on the work of the committee throughout the year.	Input by all members of the A & G Committee. Ownership of report to be confirmed.	March 2019
11	A self- assessment and knowledge and skills audit should be undertaken on a regular basis	All members of the A & G Committee	September 2018 and then annually

TABLE 1:

### Potential Training Topics

- Reviewing and approving the Annual Statement of Accounts and Annual Governance Statement;
- Evaluating the adequacy and effectiveness of the Council's financial and operational policies and procedures (including financial and accounting management)
- Reviewing the findings of both Internal and External Audit examinations and ensuring that appropriate action is taken to remedy weaknesses identified; (To include case studies re: Internal Audit reports, looking at rationale for risk ratings etc;)
- Monitoring the effective development and operation of risk management
- Reviewing and monitoring Governance arrangements/Good Governance Framework/ Code of Corporate Governance /Constitution

### Options for training are:

- Inclusion of a training item (in the form of a short presentation) on the agenda for committee meetings;
- Separate training sessions in addition to the normal committee schedule;
- Provision of briefing notes on specific subjects/roles.

- *It is anticipated that training will be arranged / delivered by officers of the Council and/or external auditors.*

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## AUDIT & GOVERNANCE COMMITTEE - SELF ASSESSMENT OF GOOD PRACTICE

### 1. HIGH LEVEL REVIEW OF KEY PRINCIPLES

	GOOD PRACTICE QUESTIONS	SELF ASSESSMENT (KNOWLEDGE) (Please indicate with X in the relevant box)			STRENGTHS / WHAT WORKS WELL	AREAS FOR IMPROVEMENT
		YES	PARTLY	NO		
Audit committee purpose and governance						
1	Does the audit committee report directly to full council?	X				
2	Do the Terms of reference clearly set out the purpose of the committee in accordance with CIPFA’s Position Statement?		X			T of R to be reviewed as part of the working group work
3	Is the role and purpose of the audit committee understood and accepted across the authority?		X		Most members and CLT are aware of the role of the A & G committee in standards matters	Training to be developed as part of the induction programme re the finance and audit functions of the committee
4	Does the audit committee provide support to the authority in meeting the requirements of good governance?	X			Members meet regularly as a committee and have a workplan Members are engaged and interested in the reports before them and ask relevant questions	There are plans to improve contact and engagement outside committee meetings with training and workshop sessions on key areas
5	Are the arrangements to hold the committee to account for its performance operating satisfactorily?		X			Annual report – consider whether this should go to Council?

## AUDIT & GOVERNANCE COMMITTEE - SELF ASSESSMENT OF GOOD PRACTICE

	GOOD PRACTICE QUESTIONS	SELF ASSESSMENT (KNOWLEDGE) (Please indicate with X in the relevant box)			STRENGTHS / WHAT WORKS WELL	AREAS FOR IMPROVEMENT
Functions of the committee						
6	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?			X		T of R being reviewed
	<ul style="list-style-type: none"> <li>Good governance</li> </ul>					
	<ul style="list-style-type: none"> <li>Assurance framework, including partnerships and collaboration arrangements</li> </ul>					
	<ul style="list-style-type: none"> <li>Internal audit</li> </ul>					
	<ul style="list-style-type: none"> <li>External audit</li> </ul>					
	<ul style="list-style-type: none"> <li>Financial reporting</li> </ul>					
	<ul style="list-style-type: none"> <li>Risk Management</li> </ul>					
	<ul style="list-style-type: none"> <li>Value for money or best value</li> </ul>					
	<ul style="list-style-type: none"> <li>Counter fraud and corruption</li> </ul>					
	<ul style="list-style-type: none"> <li>Supporting the ethical framework</li> </ul>					
7	Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?			X		Annual report to be completed for 18/19



## AUDIT & GOVERNANCE COMMITTEE - SELF ASSESSMENT OF GOOD PRACTICE

	GOOD PRACTICE QUESTIONS	SELF ASSESSMENT (KNOWLEDGE) (Please indicate with X in the relevant box)			STRENGTHS / WHAT WORKS WELL	AREAS FOR IMPROVEMENT
8	Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?	X				As part of the working group work
9	Where coverage of core areas has been found to be limited, are plans in place to address this?	X				Action plan produced as part of the working group work.
10	Has the committee maintained its advisory role by not taking on any decision-making powers that are not in line with its core purpose?	X				
Membership and Support						
11	<p>Has an effective audit committee structure and composition of the committee been selected?</p> <p>This should include:</p> <ul style="list-style-type: none"> <li>▪ Separation from the executive</li> <li>▪ An appropriate mix of knowledge and skills among the membership</li> <li>▪ A size of committee that is not unwieldy</li> </ul>	X			<p>Non exec members</p> <p>Cross party balanced committee</p> <p>Committee chosen by nominations and agreed by annual council</p>	

## AUDIT & GOVERNANCE COMMITTEE - SELF ASSESSMENT OF GOOD PRACTICE

	GOOD PRACTICE QUESTIONS	SELF ASSESSMENT (KNOWLEDGE) (Please indicate with X in the relevant box)			STRENGTHS / WHAT WORKS WELL	AREAS FOR IMPROVEMENT
12	Does the chair of the committee have appropriate knowledge and skills?		X		Engaged chair and members	All members knowledge and skills will be supported by a package of training
13	Are arrangements in place to support the committee with briefings and training?	X				
14	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?		X			See action plan
15	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the CFO?	X			Regular briefings, open dialogue, challenge and engagement	
16	Is adequate secretariat and administrative support to the committee provided?	X				
17	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?			X		Could this be gained from Annual report being considered by Council? Feedback from EA and IA?
18	Are meetings effective with a good level of discussion and engagement from all members?	X	X			

## AUDIT & GOVERNANCE COMMITTEE - SELF ASSESSMENT OF GOOD PRACTICE

	GOOD PRACTICE QUESTIONS	SELF ASSESSMENT (KNOWLEDGE) (Please indicate with X in the relevant box)			STRENGTHS / WHAT WORKS WELL	AREAS FOR IMPROVEMENT
19	Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with responsible officers?		X		Improvements to the approach to risk management and attendance of strategic director	Recently introduced updates in IA reports and attendance by managers for longstanding/high profile audits
20	Does the committee make recommendations for the improvement of governance, risk and control and are these acted on?	X			Members are given the opportunity to challenge in these areas.	
21	Has the committee evaluated whether and how it is adding value to the organisation?	X				Self assessment - Work of the working group
22	Does the committee have an action plan to improve any areas of weakness?		X			Action plan to be approved at the meeting of the committee in December 18
23	Does the committee publish an annual report to account for its performance and explain its work?			X		To be done for 18/19

## AUDIT & GOVERNANCE COMMITTEE - SELF ASSESSMENT OF GOOD PRACTICE

### 2. EVALUATING THE EFFECTIVENESS OF THE AUDIT COMMITTEE

#### Assessment Key

5	Clear evidence is available from a number of sources that the committee is actively supporting improvements across all aspects of this area. The improvements made are clearly identifiable
4	Clear evidence from some sources that the committee is actively and effectively supporting improvement across some aspects of this area
3	The committee has had mixed experience in supporting improvement in this area. There is some evidence that demonstrates their impact but there are also significant gaps
2	There is some evidence that the committee has supported improvements, but the impact of this support is limited
1	No evidence can be found that the audit committee has supported improvements in this area

AREAS WHERE THE AUDIT COMMITTEE CAN ADD VALUE BY SUPPORTING IMPROVEMENT	EXAMPLES OF HOW THE AUDIT COMMITTEE CAN ADD VALUE AND PROVIDE EVIDENCE OF EFFECTIVENESS	SELF EVALUATION, EXAMPLES , AREAS OF STRENGTH AND WEAKNESS	OVERALL ASSESSMENT 5-1 (SEE KEY ABOVE)
Promoting the principles of good governance and their application to decision making	<ul style="list-style-type: none"> <li>Supporting the development of a local code of governance</li> <li>Providing robust review of the AGS and the assurances underpinning it</li> </ul>	<p>Good challenge and contribution by committee members on the AGS</p> <p>Active in the adoption of Local Code of Corporate Governance in 2017</p> <p>Improvements to the AGS made by the head of finance.</p>	4

## AUDIT & GOVERNANCE COMMITTEE - SELF ASSESSMENT OF GOOD PRACTICE

AREAS WHERE THE AUDIT COMMITTEE CAN ADD VALUE BY SUPPORTING IMPROVEMENT	EXAMPLES OF HOW THE AUDIT COMMITTEE CAN ADD VALUE AND PROVIDE EVIDENCE OF EFFECTIVENESS	SELF EVALUATION, EXAMPLES , AREAS OF STRENGTH AND WEAKNESS	OVERALL ASSESSMENT 5-1 (SEE KEY ABOVE)
	<ul style="list-style-type: none"> <li>Working with key members to improve their understanding of the AGS and their contribution to it</li> <li>Supporting reviews/audits of governance arrangements</li> <li>Participating in self- assessments of governance arrangements</li> <li>Working with partner audit committees to review governance arrangements in partnerships</li> </ul>	<p>Consider introducing regular (bi annual?) reviews of governance to work plan</p> <p>Robust review of the Annual Governance Statement and the assurances and evidence document that is developed to support the statement.</p> <p>Working group approach worked really well</p> <p>Current participation in committee self-assessment.</p> <p>Could look to review governance arrangements in partnerships, but do receive regular reports in respect of the council's largest partnership – Revenues and Benefits Partnership.</p>	

## AUDIT & GOVERNANCE COMMITTEE - SELF ASSESSMENT OF GOOD PRACTICE

AREAS WHERE THE AUDIT COMMITTEE CAN ADD VALUE BY SUPPORTING IMPROVEMENT	EXAMPLES OF HOW THE AUDIT COMMITTEE CAN ADD VALUE AND PROVIDE EVIDENCE OF EFFECTIVENESS	SELF EVALUATION, EXAMPLES , AREAS OF STRENGTH AND WEAKNESS	OVERALL ASSESSMENT 5-1 (SEE KEY ABOVE)
Contributing to the development of an effective control environment	<ul style="list-style-type: none"> <li>Actively monitoring the implementation of recommendations from auditors</li> <li>Encouraging ownership of the internal control framework by appropriate managers</li> <li>Raising significant concerns over controls with appropriate senior managers</li> </ul>	<p>Committee engaged and challenge audit reports. Consistent and active monitoring of IA recommendations.</p> <p>Working group recommendations will suggest further training and development to support the committee understanding the role of IA and how their professional judgements are arrived it</p> <p>Managers now invited to attend for longstanding or high profile audits</p> <p>The Committee raise concerns as appropriate.</p>	4
Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks	<ul style="list-style-type: none"> <li>Reviewing risk management arrangements and their effectiveness, eg risk management benchmarking</li> </ul>	<p>Improvements made by the strategic director – revised risk management framework and regular reports to the A&amp;G committee</p> <p>Consider inviting risk owners to attend some meetings where there are questions No risk management benchmarking undertaken.</p>	3

## AUDIT & GOVERNANCE COMMITTEE - SELF ASSESSMENT OF GOOD PRACTICE

AREAS WHERE THE AUDIT COMMITTEE CAN ADD VALUE BY SUPPORTING IMPROVEMENT	EXAMPLES OF HOW THE AUDIT COMMITTEE CAN ADD VALUE AND PROVIDE EVIDENCE OF EFFECTIVENESS	SELF EVALUATION, EXAMPLES , AREAS OF STRENGTH AND WEAKNESS	OVERALL ASSESSMENT 5-1 (SEE KEY ABOVE)
	<ul style="list-style-type: none"> <li>Monitoring improvements</li> <li>Holding risk owners to account for major/strategic risks</li> </ul>	Regular monitoring, committee comments regarding presentation and description of risk and mitigating actions taken on board by officers.	
Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively	<ul style="list-style-type: none"> <li>Specifying its assurance needs, identifying gaps or overlaps in assurance</li> <li>Seeking to streamline assurance gathering and reporting</li> <li>Reviewing the effectiveness of assurance providers, eg internal audit, risk management, external audit</li> </ul>	<p>Little evidence of awareness of assurance needs and whether there are gaps/overlap.</p> <p>Some comments raised regarding the capacity of internal audit but no reviews of the effectiveness of assurance.</p>	2
Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence	<ul style="list-style-type: none"> <li>Reviewing the audit charter and functional reporting arrangements</li> <li>Assessing the effectiveness of internal audit arrangements, providing constructive challenge and supporting improvements</li> </ul>	<p>The Committee approve the Internal Audit Charter and any significant changes.</p> <p>Committee provide constructive challenge and support improvements, however have not seen the committee actively assess the effectiveness of internal audit arrangements.</p>	3 / 4

## AUDIT & GOVERNANCE COMMITTEE - SELF ASSESSMENT OF GOOD PRACTICE

AREAS WHERE THE AUDIT COMMITTEE CAN ADD VALUE BY SUPPORTING IMPROVEMENT	EXAMPLES OF HOW THE AUDIT COMMITTEE CAN ADD VALUE AND PROVIDE EVIDENCE OF EFFECTIVENESS	SELF EVALUATION, EXAMPLES , AREAS OF STRENGTH AND WEAKNESS	OVERALL ASSESSMENT 5-1 (SEE KEY ABOVE)
	<ul style="list-style-type: none"> <li>Actively supporting the quality assurance and improvement programme of internal audit</li> </ul>	<p>Internal audit is assessed against PSIAS every five years and outcomes reported to A &amp; G Committee. Ongoing compliance is reported via progress reports.</p> <p>The committee actively support the QA and improvement programme of internal audit</p>	
Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements	<ul style="list-style-type: none"> <li>Reviewing how the governance arrangements support the achievement of sustainable outcomes</li> <li>Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place</li> <li>Reviewing the effectiveness of performance management arrangements</li> </ul>	<p>Committee don't see major projects/programmes</p> <p>Is this overlapping with the role of scrutiny and executive?</p> <p>None – PM arrangements not considered by committee (although this may be useful to get better oversight on finance throughout the year).</p>	N/A
Supporting the development of robust arrangements for	<ul style="list-style-type: none"> <li>Ensuring that assurance on value for money arrangements is included in the assurances received by the audit committee</li> </ul>	Assurance on VfM arrangements delivered as part of external auditor's annual report.	4



## AUDIT & GOVERNANCE COMMITTEE - SELF ASSESSMENT OF GOOD PRACTICE

AREAS WHERE THE AUDIT COMMITTEE CAN ADD VALUE BY SUPPORTING IMPROVEMENT	EXAMPLES OF HOW THE AUDIT COMMITTEE CAN ADD VALUE AND PROVIDE EVIDENCE OF EFFECTIVENESS	SELF EVALUATION, EXAMPLES , AREAS OF STRENGTH AND WEAKNESS	OVERALL ASSESSMENT 5-1 (SEE KEY ABOVE)
ensuring value for money	<ul style="list-style-type: none"> <li>Considering how performance in value for money is evaluated as part of the AGS</li> </ul>	Limited scope within the AGS re VfM, aside from evaluation of the council's governance framework against the CIPFA/SOLACE principle "Implementing good practices in transparency, reporting, and audit to deliver effective accountability".	
Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks	<ul style="list-style-type: none"> <li>Reviewing arrangements against the standards set out in the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014)</li> <li>Reviewing fraud risks and the effectiveness of the organisation's strategy to address those risks</li> <li>Assessing the effectiveness of ethical governance arrangements for both staff and governors.</li> </ul>	<p>Review against the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014) due to be undertaken by Head of Finance and subject to audit and governance committee review.</p> <p>Regular monitoring of fraud risks via the corporate risk register.</p> <p>N/A</p>	3

## AUDIT & GOVERNANCE COMMITTEE - SELF ASSESSMENT OF GOOD PRACTICE

AREAS WHERE THE AUDIT COMMITTEE CAN ADD VALUE BY SUPPORTING IMPROVEMENT	EXAMPLES OF HOW THE AUDIT COMMITTEE CAN ADD VALUE AND PROVIDE EVIDENCE OF EFFECTIVENESS	SELF EVALUATION, EXAMPLES , AREAS OF STRENGTH AND WEAKNESS	OVERALL ASSESSMENT 5-1 (SEE KEY ABOVE)
Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability	<ul style="list-style-type: none"> <li>Improving how the authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain English</li> <li>Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encourages greater transparency</li> <li>Publishing an annual report from the committee</li> </ul>	<p>Annual report to be developed from 18/19</p> <p>Reports follow corporate style guide which includes the requirement for plain English Annual report and all public reports written in plain English. Review of draft Financial Statements by Committee.</p> <p>Decision making through Revenues and Benefits Joint Committee provides and example where decision making with partner organisations is transparent and publicly accessible.</p>	3

### 3. AUDIT AND GOVERNANCE COMMITTEE

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**Membership:** Ten councillors

**Quorum:** Three District councillors

**Statement of Purpose:**

- 3.1 The Audit and Governance Committee is a key component of North West Leicestershire District Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
- 3.2 The purpose of the Audit and Governance Committee is to provide independent assurance to those charged with governance of the adequacy of the risk management framework and the internal control environment. It provides independent review of North West Leicestershire District Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees Internal Audit and External Audit arrangements, helping to ensure efficient and effective assurance mechanisms are in place.

**Governance, Risk and Control:**

- 3.3 To review the Council's corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.
- 3.4 To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account Internal Audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.
- 3.5 To consider the Council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- 3.6 To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.
- 3.7 To monitor and provide scrutiny over the effective development and operation of risk management in the Council.
- 3.8 To monitor progress in addressing risk-related issues reported to the committee such as the Corporate Risk Register.
- 3.9 To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- 3.10 To review the assessment of fraud risks and potential harm to the Council from fraud and corruption.
- 3.11 To monitor the Anti-Fraud and Corruption strategy, actions and resources.

**Internal Audit:**

- 3.12 To approve the internal audit charter.
- 3.13 To approve the risk-based internal audit plan, including Internal Audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
- 3.14 To approve significant interim changes to the risk-based internal audit plan and resource requirements.
- 3.15 To make appropriate enquiries of both management and the Head of Internal Audit to determine if there are any inappropriate scope or resource limitations.
- 3.16 To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the Head of Internal Audit. To approve and periodically review safeguards to limit such impairments.
- 3.17 To consider progress reports from the Head of Internal Audit on Internal Audit's performance during the year.
- 3.18 To consider the Head of Internal Audit's annual report, including the statement of the level of conformance with the Public Sector Internal Audit Standards and the results of the Quality Assurance and Improvement Programme that supports the statement. Fundamental to the annual report is the opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control together with the summary of the work supporting the opinion. These will assist the Committee in reviewing the Annual Governance Statement.
- 3.19 To consider summaries of specific Internal Audit reports in accordance with agreed protocols.
- 3.20 To receive reports outlining the action taken where the Head of Internal Audit has concluded that management has accepted a level of risk that may be unacceptable to the Authority or there are concerns about progress with the implementation of agreed actions.
- 3.21 To contribute to the QAIP and in particular, to the external quality assessment of Internal Audit that takes place at least once every five years.
- 3.22 To provide free and unfettered access to the Audit Committee Chair for the Head of Internal Audit, including the opportunity for a private meeting with the Committee.

**External Audit:**

- 3.23 To support the independence of External Audit through consideration of the External Auditor's annual assessment of its independence and review of any issues raised.
- 3.24 To consider the External Auditor's annual letter, relevant reports and the report to those charged with governance.

- 3.25 To consider specific reports as agreed with the External Auditor.
- 3.26 To comment on the scope and depth of External Audit work and to ensure it gives value for money.

**Financial Reporting:**

- 3.27 To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
- 3.28 To consider the External Auditor's report to those charged with governance on issues arising from the audit of the accounts.
- 3.29 To seek assurances that the Council has complied with the Treasury Management Strategy and Practices by demonstrating effective control of the associated risks and pursuing optimum performance consistent with those risks.

**Accountability Arrangements:**

- 3.30 To report to those charged with governance on the Committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements, and internal and external audit functions.
- 3.31 To report to full Council on a regular basis on the Committee's performance in relation to the terms of reference and the effectiveness of the Committee in meeting its purpose.
- 3.32 To publish an annual report on the work of the Committee.

<b>Functions</b>	<b>Matters Reserved for a Decision</b>
The Council has determined under the powers conferred on it by Section 28(6) of the Localism Act 2011 to appoint an Audit and Governance Committee and it has the following roles and functions:	To determine any issues referred to the Committee (except for any matter reserved to the Council).
<p>Promoting and maintaining high standards of conduct by councillors and co-optees.</p> <p>Assisting the councillors and co-optees to observe the Members' Code of Conduct.</p>	

<p>Advising the Council on the adoption or revision of the Members' Code of Conduct.</p> <p>Monitoring the operation of the Members' Code of Conduct.</p> <p>Advising, training or arranging to train councillors and co-opted members on matters relating to the Members' Code of Conduct.</p> <p>Granting dispensations to councillors who require such dispensations for more than one meeting or on more than one occasion from requirements relating to interests set out in the Members' Code of Conduct as appropriate.</p> <p>Dealing with any report from the Monitoring Officer on any matter concerning Governance.</p> <p>To establish Sub-committees for the Assessment of Determination of matters concerning allegations of Members' Conduct.</p> <p>And in addition the Audit and Governance Committee also oversees the ethical framework of the Council including oversight of:</p> <ul style="list-style-type: none"> <li>• the Whistle Blowing Policy</li> <li>• complaints handling</li> <li>• Ombudsman investigations.</li> </ul>	
<p>To exercise the above functions for the parish councils wholly or mainly in its area and the members of those parish councils.</p>	

**NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL**

**AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 5 DECEMBER 2018**

Title of report	<b>STANDARDS AND ETHICS - QUARTER 2 REPORT</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 Legal and Commercial Services and Monitoring Officer 01530 454701 <a href="mailto:elizabeth.warhurst@nwleicestershire.gov.uk">elizabeth.warhurst@nwleicestershire.gov.uk</a></p>
Purpose of report	To receive the figures for local determination of complaints and the ethical indicators for Quarter 2 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 Q2 REPORT**

1.1 Enclosed is the Standards and Ethics – Quarter 2 Report for the committee’s review.

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# **STANDARDS AND ETHICS**

## **QUARTER 2 REPORT**

### **2018/2019**

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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

<sup>11</sup>  
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.

The Monitoring Officer received 0 complaints in Quarter 2 of 2018/19.

## **2.1 Assessment Sub-committee Decisions**

There has 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.

**0 complaints have been resolved informally in Quarter 2.**

## **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 2. 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.

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

N/A

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
1.0	Objections to the councils accounts	Financial Planning Team Manager	0	0	0	0	0			
1.1	Follow up action relating to breaches of the Member/Officer Protocol (Members)	Head of Legal And Support Services	0	0	0	0	0			
1.2	Disciplinary action relating to breaches of the Member/Officer Protocol (staff)	Human Resources Team Manager	0	0	0	0	0			
1.3	Public interest reports	Senior Auditor	0	0	0	0	0			
1.4	Number of whistle blowing incidents reported		0	0	0	0	0			
1.5	No. of recommendations made to improve governance procedures/policies		17	25	19	0	22		15	
1.6	No. Of recommendations implemented		12	5	16	17	17		20	

## Definition of a Stage 1 complaint:

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 in Q2 **50%**. The remainder were within the 10 day time limit at quarter end

We received an average of **7** complaints a month in Q2

Our average response time was **11 days**

## Top 3 types of Stage 1 complaints Q2

- Housing Asset Management
- Housing Management
- Environmental Protection

Our average response time of 11 days was pushed up slightly due to a complex case regarding Right to Buy and Housing Management

**11** Stage 1 complaints were resolved in Q2, This is a decrease of **21%** from Q2 17/18

REF	Performance Indicator Description	Officer Responsible for Providing Information	Q1		Q2		Q3		Q4	
Stage 1 Complaints Received			Actual 2017/18	2018/19	Actual 2017/18	2018/19	Actual 2017/18	2018/19	Actual 2017/18	2018/19
2.0	Total no. of Stage 1 complaints received	Corporate Complaints Officer	28	30	31	22				
2.1	No. of Stage 1 complaints Resolved		26	29	14	11				
2.2	No. of customers who raised their Stage 1 complaint to a Stage 2		5	2	3	5				
2.3	No. of Stage 1 complaints still open and within 10 days		2	1	17	11				

## Definition of a Stage 2 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 Q2  
**100%**

We received an average of 2 complaints a month in Q2

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

## Top types of Stage 2 complaints Q2

- Revenues and Benefits
- Housing Management
- Environmental Protection

5 out of 5 Stage 2 complaints were resolved in Q2.

There has been a slight drop in % answered on time partly due to a mutual housing exchange complaint and one Environmental Protection complaint which went slightly over the 10 days. That said, all 5 complaints were resolved in Q2.

REF	Performance Indicator Description	Officer Responsible for Providing Information	Q1		Q2		Q3		Q4	
Stage 2 Complaints Received			Actual 2017/18	2018/19	Actual 2017/18	2018/19	Actual 2017/18	2018/19	Actual 2017/18	2018/19
3.0	Total no. of Stage 2 complaints received	Corporate Complaints Officer	5	7	3	5				
3.1	No. of Stage 2 complaints Resolved		3	7	1	5				
3.2	% of stage 2 complaints answered on time		60	71	0	60				
3.3	No. of Stage 2 complaints still open and within 10 days		2	0	3	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 on time in Q2  
**64%**

We received an average of  
**5 MP**  
enquiries per month in Q2

Our average response time was **11** days

## What the MP Enquiries were about:

- Strategic Housing
- Environmental Protection
- Housing Management

The average response time was, on average, slightly above target due to two enquiries with Strategic Housing. One was a complex homelessness case and the other was regarding housing banding and the bidding process.

REF	Performance Indicator Description	Officer Responsible for Providing Information	Q1		Q2		Q3		Q4	
MP Enquiries received			Actual 2017/18	2018/19	Actual 2017/18	2018/19	Actual 2017/18	2018/19	Actual 2017/18	2018/19
4.0	Total no. of MP enquiries (req) received	Head of Legal and Support Services	19	9	32	14				
4.1	% of req responded to on time		63	67	44	64				



## 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 Q2 were 2

We received an average of 1 Complaint a month in Q2

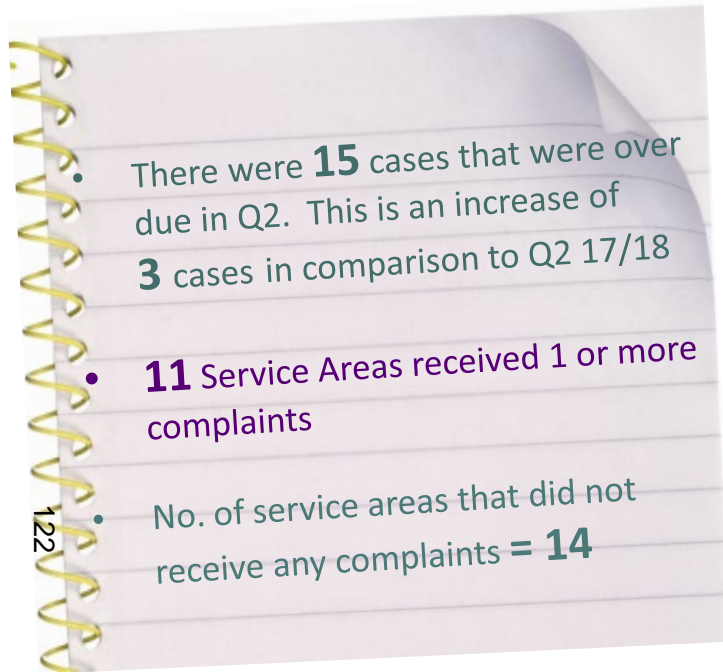
Ombudsman complaints resolved in Q2 was 1

## What the Ombudsman complaints were/are about:

- Planning and Development
- Revenues and Benefits

Of the one case resolved during Q2, which was the Planning and Development case, we were found at fault for failure to consider a plot which would impact on a potential property purchase. That said, the Ombudsman did not believe that the fault caused the complainant any significant injustice.

REF	Performance Indicator Description	Officer Responsible for Providing Information	Q1		Q2		Q3		Q4	
Ombudsman Complaints received			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	2	2				
5.1	No of req still open and within 10 working days		0	0	2	1				



The breakdown of Service Areas that received 1 or more complaints in Q2 are:

- Cultural Services
- Customer Services
- Environmental Health
- Environmental Protection
- Housing Asset Management
- Housing Management
- Planning and Development
- Planning Policy
- Revenues and Benefits
- Strategic Housing
- Waste Services

We received an average of **9** complaints per month in Q2

Total number of complaints responded to in Q2  
**25**

Our average response time was **14 days**. This was due to a few outlier cases with Housing Management, Environmental Protection and Revenues and Benefits requiring extended investigation time

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

- Due to the recent restructures within the business and changes in management, this has involved new managers using the complaints system.
- One of the areas that have had significant changes has been within the housing structure and their teams. 44% of the Stage 1 and Stage 2 complaints in Q2 were related to three of the housing service areas. Management of the housing function is taking on board complaints to pre-empt them as the new structure beds in.
- Feedback have supported the teams where they can, assisting with the process and writing responses and will continue to offer assistance during this time.

## 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 Q2 - 86**

### 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 Q2 - 32**

### 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 Q2 - 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 Q2 - 47**

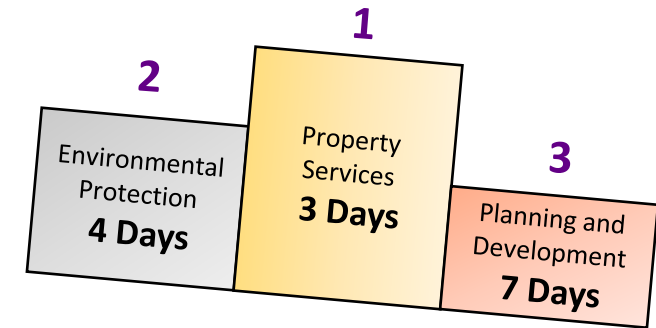
**19 unique visitors to the council's open data page**

We received an average of **19 FOI's** a month in Q2

Our average response time was **9 days**

We had a decrease of **30%** compared to Q2 (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	
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	82	57				
6.1	% req answered on time		100	84	100	96				
6.2	No. of non compliant req		9	0	2	2				
6.3	No of FOI appeals		0	0	0	0				
6.4	Number withheld due to exemptions/fees applied		5	7	0	11				

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	0	0				
7.1	No. in force at the end of the quarter		0	0	0	0				
7.2	No. of CHIS recruited during the quarter		0	0	0	0				
7.3	No. ceased to be used during the quarter		0	0	0	0				
7.4	No. active at the end of the quarter		0	0	0	0				
7.5	No. of breaches (particularly unauthorised surveillance)		0	0	0	0				
7.6	No. of applications submitted to obtain communications data which were rejected		0	0	0	0				
7.7	No. of notices requiring disclosure of communications data		0	0	0	0				
7.8	No. of authorisations for conduct to acquire communications data		0	0	0	0				
7.9	No. of recordable errors		0	0	0	0				

**AUDIT AND GOVERNANCE COMMITTEE – WORK PROGRAMME** (as at 27/11/18)

Issue	Details	Report Author	Meeting at which will be reported
<b>December</b>			
Internal Audit Progress Report		Sharon Harrison-Bowler	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 and Commercial Services	5 December 2018
Annual Governance Statement Improvements		Tracy Bingham, Head of Finance	5 December 2018
CIPFA's practical guide for local authorities and police (2018 edition) - self-assessment outcome report		Elizabeth Warhurst, Head of Legal and Commercial Services	5 December 2018
<b>March</b>			
External Audit Plan		Tracy Bingham, Head of Finance	20 March 2019
External Audit Recommendations Progress Report		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
Annual Audit Letter		Tracy Bingham, Head of Finance	20 March 2019

Issue	Details	Report Author	Meeting at which will be reported
Treasury Management Activity Report		Tracy Bingham, Head of Finance	20 March 2019
2018/19 Materiality Level and Accounting Policies		Tracy Bingham, Head of Finance	20 March 2019
Grants and Claims Annual Report		Tracy Bingham, Head of Finance	20 March 2019
Corporate Risk Update		Glyn Jones, Strategic Director of Housing and Customer Services	20 March 2019
Standards and Ethics - Quarter 3 Report		Elizabeth Warhurst, Head of Legal and Commercial Services	20 March 2019
Draft Member Conduct Annual Report		Elizabeth Warhurst, Head of Legal and Commercial Services	20 March 2019
Annual Governance Statement Improvements		Tracy Bingham, Head of Finance	20 March 2019