STROUD DISTRICT COUNCIL
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21 January 2019

AUDIT AND STANDARDS COMMITTEE

A meeting of the Audit and Standards Committee will be held on **TUESDAY 29 JANUARY 2019** in the Council Chamber, Ebley Mill, Ebley Wharf, Stroud at **7.00 pm.**

KRO'Leary

Kathy o'Leary
Chief Executive

Please Note: This meeting will be filmed for live or subsequent broadcast via the Council's internet site (www.stroud.gov.uk). By entering the Council Chamber you are consenting to being filmed. The whole of the meeting will be filmed except where there are confidential or exempt items, which may need to be considered in the absence of the press and public.

A G E N D A

1 **APOLOGIES**
To receive apologies for absence.

2 **DECLARATIONS OF INTEREST**
To receive declarations of interest.

3 **MINUTES**
To approve the minutes of the meeting held on 20 November 2018.

4 **PUBLIC QUESTION TIME**
The Chair of Committee will answer questions from members of the public submitted in accordance with the Council's procedures.
DEADLINE FOR RECIEPT OF QUESTIONS
Noon on THURSDAY 24 JANUARY 2019
Questions must be submitted in writing to the Chief Executive, Democratic Services, Ebley Mill, Ebley Wharf, Stroud and sent by post or by Email: democratic.services@stroud.gov.uk.

5 **STANDING ITEMS**
(a) To consider the work programme for 2018/19.
(b) To consider any Risk Management issues.
(c) To receive a report from the Task and Finish Group (Ethical Audit).

6 **UPDATE ON THE ACTIONS TAKEN IN RELATION TO THE RECOMMENDATIONS MADE IN THE LEGACY (ICT) SYSTEMS AND THE MULTI SERVICES CONTRACT FOLLOW UP REPORT**

To receive updates from senior officers on the above.

7 **INTERNAL AUDIT ACTIVITY PROGRESS REPORT 2018/19**

To inform Members of the Internal Audit activity progress in relation to the approved Internal Audit Plan 2018/19.

8 **ANNUAL SUMMARY OF CERTIFICATION OF GRANT CLAIMS AND RETURNS 2017/18**

To receive an update from KPMG on the above.

9 **ANNUAL GOVERNANCE STATEMENT 2017/18 IMPROVEMENT PLAN – PROGRESS REPORT**

To provide assurance to the Committee that the improvement areas and associated actions identified as part of the annual review of governance arrangements operating within the Council have been/are being addressed.

10 **3RD QUARTER TREASURY MANAGEMENT ACTIVITY REPORT 2018/19**

To receive an update on treasury management activity as at 31 December 2018.

11 **TREASURY MANAGEMENT STRATEGY, ANNUAL INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION POLICY STATEMENT 2019/20**

To consider the above report and make recommendations to Council.

12 **EXTERNAL AUDIT PLANNING REPORT**

Planning report from the Council's external auditors Deloitte for the year ending 31 March 2019.

13 **MEMBERS' QUESTIONS**

See Agenda Item 4 for deadline for submission.

Members of Audit and Standards Committee

Councillor Nigel Studdert-Kennedy (Chair)
Councillor Skeena Rathor (Vice-Chair)
Councillor Rachel Curley
Councillor Stephen Davies
Councillor Keith Pearson
Councillor Simon Pickering
Councillor Mark Reeves
Councillor Tom Williams
1 vacancy

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AUDIT AND STANDARDS COMMITTEE

3

20 November 2018

7.05 pm – 8.30 pm

Council Chamber, Ebley Mill, Stroud

Minutes

Membership

Councillor Nigel Studdert-Kennedy (Chair)	A	Councillor Simon Pickering	P
Councillor Skeena Rathor (Vice-Chair)	P	Councillor Mark Reeves	P
Councillor Rachel Curley	P	Councillor Tom Williams	P
Councillor Stephen Davies	P	Councillor Penny Wride	A
Councillor Keith Pearson	A		

A = Absent P = Present

Officers in attendance

Head of Finance and Section 151 Officer
Group Manager - Audit Risk Assurance Shared Service
Interim Head of Legal Services and Monitoring Officer
Director of Development Services
Principal Accountant
Democratic Services Officer

Other Member present
Councillor Cornell

Also present
Ian Howse, Partner in Deloitte the Council's external auditors

AC.023 APOLOGIES

Apologies for absence had been received from Councillors Studdert-Kennedy, Pearson and Wride.

AC.024 DECLARATIONS OF INTEREST

There were none.

AC.025 MINUTES

RESOLVED **That the Minutes of the meeting held on 9 October 2018, are approved as a correct record.**

AC.026 PUBLIC QUESTION TIME

There were none.

AC.027 STANDING ITEMS

(a) Work Programme

- 29 January 2019 – ICT management update and Multi Services Contract management update will be items on the agenda and added onto the work programme, also the Annual Summary of Certificate of Grant Claims and Returns 2017/18 will be based on work carried out by KPMG.
- 7 May 2019 - Deloitte will present the External Audit Plan 2018/19.

(b) Risk Management – The Group Manager - Audit Risk Assurance Shared Service confirmed that she would provide members with an update on procurement via email. Councillor Curley had looked at the Corporate Risk Register and the highest risk 16 had not been updated when due in August and asked why. The Head of Finance and Section 151 Officer clarified that there had been updates to Strategy & Resources Committee about the IT Strategy and to Member Groups and there had been Workshops. He also stated that the Head of IT attended Corporate Team last week to discuss and Corporate Team have stressed the importance of updating risks. The Committee were assured that the update would be made to the Register to reflect action taken.

AC.028 INTRODUCTION OF NEW EXTERNAL AUDITORS

Ian Howse, a partner in Deloitte, the Council's external auditors, introduced himself and his company to members.

AC.029 HALF YEAR TREASURY MANAGEMENT ACTIVITY REPORT 2018/19

The Principal Accountant outlined the above report. Members asked questions regarding the proposed increase from £3m to £10m for future investment into property. Members had mixed views on this proposal. The Officer confirmed that property investment in recent years had out performed bank investments. The average long term yield was between 3.5%-4%. Councillor Williams requested information on how the Council's current property portfolio had performed.

The Committee unanimously RESOLVED after proposal by Cllr Davies seconded by Cllr Pickering to RECOMMEND TO COUNCIL:

(a) **To approve the treasury management activity half year report for 2018/2019, and** RESOLVED by 3 votes to 2 with 1 abstention after proposal by Cllr Pickering seconded by Cllr Reeves

(b) **To approve the proposal to increase the limit for investment in property funds to £10m set out in paragraph 15**

AC.030 INTERNAL AUDIT ACTIVITY PROGRESS REPORT 2018/19

The Group Manager - Audit Risk Assurance Shared Service outlined the above report and explained that savings to the Council's insurance premium had been achieved by effective cross-Council consultancy working across 6 Councils led by an insurance specialist which made technical challenge and managed the tender, achieving 42%

savings overall on the insurance programme, achieved £250,000 savings and a 90% reduction in excess partly attributable to Stroud District Council being able to provide assurance that insurable risk was well managed .

The audit on the workforce plan was confirmed as still in progress (position statement provided to the October 18 Committee meeting), with the outcomes to be reported to a future meeting. Councillor Davies requested that a time line was added to the data in the summary. Clarification was also given regarding the two procurement items discussed at the last meeting.

Committee unanimously RESOLVED after proposal by Cllr Curley seconded by Cllr Pickering:

(a) To accept the progress against the Internal Audit Plan 2018/19; and
(b) To accept the assurance opinions provided in relation to the effectiveness of the Council's control environment comprising risk management, control and governance arrangements as a result of the Internal Audit activity completed to date.

AC.031 MEMBERS' QUESTIONS

There were none.

The meeting closed at 8.30 pm.

Chair

STROUD DISTRICT COUNCIL

AGENDA ITEM NO

5a

AUDIT AND STANDARDS COMMITTEE

29 JANUARY 2019

WORK PROGRAMME

Proposed Meeting Date	**Report Description**	**Responsible Officer / Member**
7 May 2019	Annual Report of the Audit and Standards Committee (prepared by the Chairman) for agreement prior to presentation to Council	Chair
	Internal Audit Activity Progress Report 2018/19	Head of Audit Risk Assurance (ARA)
	Internal Audit Plan 2019/20	Chief Internal Auditor
	Standing Items a. To consider the work programme for 2018/19. b. To consider any Risk Management issues. c. To receive a verbal update on the Task and Finish Group (Ethical Audit).	Members

<u>Civic Year 2019/20</u>

Proposed Meeting Date	**Report Description**	**Responsible Officer / Member**
16 July 2019	Standing Items a. To consider the work programme for 2018/19. b. To consider any Risk Management issues. c. To receive a verbal update on the Task and Finish Group (Ethical Audit).	Members
	Approval of the Statement of Accounts	S151 Officer
	External Audit Report on Accounts	Deloitte
	Treasury Management Activity 2018/19	S151 Officer
	Annual Governance Statement	S151 Officer
8 October 2019	Standing Items a. To consider the work programme for 2018/19. b. To consider any Risk Management issues. c. To receive a verbal update on the Task and Finish Group (Ethical Audit).	Members

28 January 2020	Standing Items a. To consider the work programme for 2018/19. b. To consider any Risk Management issues. c. To receive a verbal update on the Task and Finish Group (Ethical Audit).	Members
28 April 2020	Standing Items a. To consider the work programme for 2018/19. b. To consider any Risk Management issues. c. To receive a verbal update on the Task and Finish Group (Ethical Audit).	Members

STROUD DISTRICT COUNCIL

AUDIT AND STANDARDS COMMITTEE

29 JANUARY 2019

AGENDA ITEM NO

5c

Report Title	**REPORT OF THE ETHICAL AUDIT TASK & FINISH GROUP**
Purpose of Report	To update Members of the activities and conclusions of this Task & Finish Group
Decision(s)	The Committee **RESOLVES** to note the report's findings.
Financial Implications and Risk Assessment	There are no financial implications arising from this report. Andrew Cummings Head of Finance and Section 151 Officer Email: andrew.cummings@stroud.gov.uk
Legal Implications	The risk of failure of the Council to meet its legal duty to promote and maintain high standards of conduct as required by the Localism Act 2011 is a reputational risk as well as potentially involving legal challenge to decisions that might incur time and expense. Nicola Swan Interim Head of Legal Services & Monitoring Officer Email: nicola.swan@stroud.gov.uk
Report Author	Nicola Swan on behalf of the Committee's Task and Finish Group (Chair: Cllr Studdert-Kennedy; Cllr Baxendale: Cllr Pearson; Cllr Tom Williams; Cllr Wride). To be presented jointly by Cllr Studdert-Kennedy and Cllr Pearson.

1. INTRODUCTION

1.1 In pursuit of this Committee's responsibility in relation to review of standards of conduct applicable to all Councillors, a Task & Finish Group was appointed to look at the Council's ethical framework. Meetings of this Committee on 6 February and 10 April 2018 produced the terms of reference for the review, namely (a) the content of the Member Code of Conduct (in particular the general requirements); and (b) the existing investigations and determinations procedure. Recommendations on changes (if any) to the framework to ensure standards are promoted and upheld by the Council were to be reported back to this Committee.

1.2 The work of the Task & Finish Group was led and supported by the previous Monitoring Officer, Karen Trickey. The starting point had been to check Member understanding and perceptions of the Code including knowledge of complaint handling procedures and whether those were effective and had positively impacted on Member behaviour. Some reporting to Political Groups was also included, given there is a role for probity governance at Group. To encourage as full engagement as possible, all Members were circulated with a questionnaire sent out on the basis that responses would be confidential. High levels of engagement with the questionnaire were achieved as well as high levels of engagement at the workshop on 27 September 2018. The usefulness of Members meeting periodically to work through Conduct Code issues was acknowledged, using workshops or formal training.

1.3 Meetings were scheduled to take place with an original report back to the 26 July 2018 meeting of this Committee. Given changes in personnel with an Interim Head of Legal & Monitoring Officer starting at the end of October 2018, the work schedule inevitably slipped a little and this is the first Committee meeting to which an updating report could be brought. A workshop was held on 27 September 2018 at which Officers and Members met to discuss the findings and recommendations.

2.0 FINDINGS

2.1 The previous Monitoring Officer had noted the findings to be as follows:

2.1.1 there are some similarities between the views of the two main groups as to what is important in securing high standards of conduct (eg. both groups considered the rules regarding declaration of interest to be most important);

2.1.2 there were also some notable differences (eg importance of having regard to officer advice);

2.1.3 some evidence from the survey responses that Member behaviour had slightly fallen over the previous 12 months;

2.1.4 some discrepancy between Member and Officer views as to level of understanding of what is expected of Members.

2.2 There was consensus that the main issue was felt to be that work was needed on the Member/Officer Protocol and suggested points for Members and for Officers to adopt to address issues were as follows:

<u>Members</u>

- The acknowledgment and appreciation that Officers are there in a professional capacity to give professional advice in discharge of professional duties owed to the Council;

- Need for guidance to Members on how best to interact with Officers (eg the practice of making appointments, especially when seeking to deal with more junior staff, and to arrive at meetings with Officers prepared).

Officers

- To understand the concerns of Members;
- To follow up discussions with Members to confirm advice on matters discussed to aid clarity and prevent misunderstanding (which some Members regarded as “back-tracking”)

2.3 A workshop was held on 27 September 2018 at which Members and Officers to facilitate better understanding of the Code and, importantly, how to apply it by looking at various situations for those attending to analyse and check accuracy of their application of the Code to those situations.

3.0 CONCLUSIONS

3.1 Notes of the conclusions from the work of the Task & Finish Group to how best to secure compliance with the Code were:

3.1.1 To simplify the Code where possible to focus only on the Nolan principles, eg. treating each other with respect;

3.1.2 When a Mission Statement is identified for the Council, to make clear that Members represent local needs of all constituents of the district and not just needs of their own ward;

3.1.3 To monitor ethical standards (the annual report of the Monitoring Officer would usually detail the work of the past year dealing with Code matters);

3.1.4 Review the Member and Officer Protocol to ensure provisions regarding improvements for Member interaction with Officers (data governance and GDPR compliance).

4.0 RECOMMENDATIONS

4.1 To undertake work on the Member/Officer Protocol to deal with matters set out at 2.2 above to improve clarity around those relationships and enhance the efficacy of the Council.

5.0 It is clear that considerable time and effort was input by the previous Monitoring Officer to produce high quality materials for this review. Committee may wish to acknowledge by formally noting their thanks in the Minutes resulting from this meeting.

Report to the Audit and Standards Committee in January 2019 on the management actions taken in relation to key recommendations made in the Legacy ICT Systems internal audit report

Lead Officer: Mark Fisher (Head of ICT)
Presenting Officer: Mark Fisher

Summary of Audit Area

Legacy ICT are those systems and applications which have reached or are approaching end-of-life or are no longer appropriate to support Stroud District Council's (the Council's) strategic delivery plan.

Legacy ICT systems can become an issue where there has been limited investment in overarching ICT. Old systems can become costly to maintain, can fall out of support presenting an operational and possibly a security risk, and may no longer fit with or support the Council's aims and objectives.

There is a hidden cost to maintaining old or legacy systems in the additional time taken to maintain and support them. There is also a current need across the public sector generally, and in local government particularly, to move to digital ICT strategies which make savings as part of a transformation programme. ICT sits at the heart of such a strategy and requires clear direction and proper investment if savings or efficiencies elsewhere in the organisation are to be made. The Government's own ICT strategy, published in March 2011, recognises that legacy systems are a barrier to the proper introduction of new policies or working methodologies (such as digital) because they are inflexible and unable to change as they must as the delivery of public services requires them to.

The cost and risk of maintaining legacy systems has to be balanced against the cost and risk of replacement, which include data migration, implementation and set-up costs, disruption to service users, and then the benefits of replacement which include efficiency, improved systems integration, reduced operating costs etc.

Summary Terms of Reference of the Audit

The scope of the audit review encompassed:

- Identification of existing systems and platforms;
- Gap analysis to identify where there is a delivery mis-match or shortfall; and
- Evaluation against strategic objectives.

Risks

- Non compliance with the Council's security policy guidelines.
- Lack of alignment to the Council's visions, aims and objectives.
- Old/unsupported applications/environments risk security vulnerability and potential system downtime or inability to adequately recover systems.

Key Findings

The review identified the following matters which required attention:

- At the time of the audit, the ICT strategy was in its last year, had become out of date and did not reflect or inform the business or its future requirements. This presents a significant risk for the Council in that, until this is corrected, the direction of travel for innovation, transformation and ICT application procurement or development is unclear. It should be stated that the Council had commissioned an independent strategic review of ICT within 2017/18 which has highlighted required actions for the Council to take on this area.
- It was apparent that there are infrastructure devices that, whilst still in support (which if not, would present a security risk), are approaching end-of-life and require a decision on replacement. Examples were included in the original report.
- There are some key business applications that, at the time of the audit, are end-of-life and /or are running versions behind the latest, and are also out of support. Examples were included in the original report.
- The original terms of reference contained a gap analysis to identify delivery mis-matches or shortfalls. Without an up to date ICT strategy, this was not feasible and would only be achievable once a clear strategy is produced and adopted.

It was clear during the audit that, despite the above, systems, applications and infrastructure devices were being maintained as well as possible during a period of uncertainty and underinvestment. The risk of running old or unsupported equipment was understood within ICT but perhaps less so in service areas where some of the replacement decisions are taken. The independent strategic review of ICT is a positive action and should provide a clear direction to Council leadership and ICT management in terms of future ICT requirements.

Following review and consideration of the Legacy ICT Systems audit outcomes, Audit and Standards Committee requested that management attend the January 2019 Committee meeting to provide an update against the audit recommendations.

Action taken as at January 2019 and/or proposed

Recommendation 1

Audit recommendation:

An ICT strategy should be developed, approved and implemented as a matter of urgency, which should then translate to a development plan for the Council's ICT function(s).

Original management response:

A 3rd party organisation (SOCITM) has been engaged to work with major stakeholders to produce a digital vision and strategy leading to an ICT strategy. This work commences in August 2018 and will present to members in October. ICT development plans will then be produced.
Completion date: November 2018

Management update as at January 2019:

Three ICT related strategies are being developed and are due to be delivered on the dates as follows:

1. ICT Strategy 25/01/2019
2. Information Strategy 22/02/2019
3. Digital Strategy 22/03/2019

Recommendation 2

Audit recommendation:

Infrastructure devices that are at or approaching end-of-life should be scheduled for replacement as part of the strategy for ICT delivery.

Original management response:

Infrastructure devices that are at or approaching end-of-life are being replaced as dictated by the current operational needs of the organisation. New blade servers have been ordered and will be commissioned by the end of October 2018. Work has begun on two separate projects to replace; 1) SAN storage systems, and 2) Network routers and switches. It should be noted a standard replacement cycle statement for ICT infrastructure is being developed, which will be discussed as part of the budget development cycle to ensure this situation can be avoided in the future.
Completion date: April 2019

Management update as at January 2019:

- 8 x new blade servers were purchased, installed and are in service.
- Market investigation into options for a replacement SAN are continuing. A loan demo SAN has been tested onsite and further testing with alternative SAN providers is required.
- A request for quotations for new network equipment will be published by the end of January.

Recommendation 3

Audit recommendation:

Business applications that are at or approaching end-of-life, or are out of support should be considered for replacement as part of the strategy for ICT delivery.

Original management response:

Agreed. It is expected that all applications will be reviewed, upgraded or replaced as the ICT development plans are developed and implemented. A basic review of all applications should be completed by April 2019.
Completion date: April 2019

Management update as at January 2019:

A basic review of major applications/systems is being carried out by SOCITM and is on target. ICT will continue to review suitability of business applications on a yearly basis or as appropriate.

Report to the Audit and Standards Committee in January 2019 on the actions taken in relation to key recommendations made in the Multi Services Contract Follow Up internal audit report

Lead Officer: Mike Hammond (Head of Community Services)
Presenting Officer: Mike Hammond

Summary of Audit Area

At the full Council meeting on 6 November 2014 the Members approved Ubico Ltd (not for profit making organisation) to deliver and provide for the Council's waste and recycling provision, street cleaning, grounds maintenance, fleet management and maintenance services.

The cost of providing this service to Stroud District Council (the Council) in the first year of operation, as per the contract was approximately £5m. The budget for 2018-19 indicates that the cost for the financial year will be approximately £5.6m.

As part of the 2017-18 Internal Audit work plan, Internal Audit provided professional advice and support to the Service area to develop a control framework that ensured there were adequate arrangements in place to effectively manage and monitor the contract with Ubico Ltd. This consultancy review focused upon the following five key areas:

- Governance arrangements;
- Risk identification and management;
- Cost control and management;
- Change control; and
- Monitoring and management of performance.

The Internal Audit consultancy review completed in 2017-18, concluded that although Public Spaces had successfully introduced three new chargeable waste collection services during the second half of 2015-16, and the new waste and recycling services during 2016-17, alongside managing the closure of the multi services contract with the previous contractor and the procurement of the service to the new provider there were found to be key governance issues with the management of the current contract.

These issues related to the lack of documented Terms of Reference for the board and key service meetings, delegation of authority and receipt of timely budgetary updates, etc.

Summary Terms of Reference of the Audit

This audit sought to provide assurance that the recommendations raised in the 2017-18 consultancy review of the multi services contract had been fully implemented or there was an approved action plan to show how and when they will be implemented.

Risks

The specific risks to the management of the multi services contract are as follows:

- Lack of clarity around roles and responsibilities, decision making powers, effective management and control of the contract resulting in poor performance, ineffective decision making, and / or potential unforeseen, unbudgeted additional costs;
- Non-compliance with the contract terms and conditions resulting in poor customer service, potential unforeseen, unbudgeted additional costs and adverse publicity;
- All risks from both parties affecting the multi services contract are not fully identified and managed resulting in unforeseen exposures significantly impacting on service delivery, reputation and potential increased financial costs;
- Loss of service due to a temporary or long term disaster or event resulting in limited or no customer service, adverse publicity, health and safety issues and increased costs;
- Excessive costs are paid for the service provision resulting in financial losses, reduction in finance available to other services of the Council and / or increase in charges to householders;
- Ambiguity between the service provisions expected to be delivered against what is delivered resulting in a shortfall in service, increase in costs, poor customer services and adverse publicity;
- Unauthorised changes / variations to the service provision are made resulting in excessive unplanned costs;
- Contractor performance and risks are not fully understood or managed resulting in poor service delivery and poor customer service being detected; and
- Fundamental disagreements with the contractor resulting in early termination of the contract or provision of a poor service.

Key Findings

Five high and four medium priority recommendations were raised by Internal Audit in the 2017-18 consultancy review of the multi services contract to support management in the provision of a robust and effective governance framework and for the effective delivery of the contract.

Community Services was subject to the Workforce Plan – Change Programme during the fourth quarter of 2017-18 and first quarter of 2018-19. During that period two of the three experienced Public Space Officers resigned and the Public Space Manager was made redundant. Other changes to personnel with responsibility for managing and supporting the operation of the multi services contract were also introduced.

The above has resulted in a loss of key personnel who were responsible for the multi services contract and with it a significant reduction in the level of knowledge and skills in this area. The Community Services Manager has taken over day to day management of the contract but the majority of his time has up until now been mainly spent on another Council high priority project. This has all resulted in a significant adverse impact on the delivery of the recommendations raised by Internal Audit.

As a result of the above, there has been a delay in the resolution of eight of the nine recommendations that were raised and agreed by management in the November 2017 consultancy review.

Following review and consideration of the Multi Services Contract Follow Up audit outcomes, Audit and Standards Committee requested that management attend the January 2019 Committee meeting to provide an update against the audit recommendations.

Action taken as at January 2019 and/or proposed

Review area: Governance arrangements

Recommendation 1 – terms of reference
Original recommendation (November 2017) A detailed Terms of Reference for each of the contract management meetings should be created and implemented to formalise the purpose, scope / responsibilities and authority of each of the boards / groups.
Original management response A Terms of Reference has been formulated for and agreed by the Environmental Services Partnership Board (ESPB). A Terms of Reference for client/contractor operational meetings will also be agreed. Completion date: 30/11/17
Audit follow up position (September 2018): Action plan developed Draft Terms of Reference for the ESPB and Client / Contractor operational meetings have been written but have not been subject to formal ESPB members' approval. In addition the Terms of Reference for the Client / Contractor management meeting has not been drafted. The Head of Community Services advised that the original governance structure for the service provision, with the exception of the ESPB, is to be reviewed and updated where appropriate to ensure the structure is robust and effective. A Terms of Reference will then be written / updated and all submitted to the ESPB for approval by 31 January 2019.
Management update – action taken as at January 2019 and/or proposed A Terms of Reference has been created and circulated to Environmental Services Partnership Board members. At the January meeting members of this board ratified the draft TOR proposal, further to this the terms of reference for the monthly management meetings was also ratified. - MH

Recommendation 2 – review of contract
Original recommendation (November 2017) A full review of the contracts performance should be undertaken to formally identify all key actions / requirements to ensure compliance with the contract provisions, particularly in relation to the creation and agreement of a Communications Protocol, Ubico Ltd submission of a quarterly reconciliation invoice or credit note and production of an annual service report.
Original management response A full performance review of the Multi Service Contract will take place over the coming months and will cover the key points identified within this report. Completion date: 31/03/18
Audit follow up position (September 2018): Action plan developed The Head of Community Services provided a revised completion date of 30

November 2018 for a full review of the contract to establish Ubico Ltd duties and responsibilities and subsequently to confirm their compliance.
Management update – action taken as at January 2019 and/or proposed A review of the contract provision has been undertaken, including the creation of a Communications Protocol. Ubico are now reporting key service data via a monthly report that will form the basis for a more comprehensive annual report. These monthly reports are presented at the monthly management meetings. Detailed financial data is being provided monthly, illustrating budget and actual figures for increased scrutiny. SDC staff are attending Ubico finance meetings to better understand the detail that sits behind the figures and to have questions answered at source. This has been a hugely positive step.

Review area: Risk identification and management

Recommendation 3 – risk register
Original recommendation (November 2017) Undertake a full joint review of the risks facing the delivery of the multi service contract to confirm that the risks are still current and valid, update where appropriate, correctly evaluated, ensuring mitigating controls have been identified and documented. The joint risk register should be a 'live' 'dynamic' document which forms part of the ongoing management and monitoring arrangements. The key red residual risks are then reported to the relevant boards / groups to enable challenge and inform decisions and priorities.
Original management response Risks associated with the Multi Service Contract were jointly identified and co-managed by the Council and Ubico Ltd over the past 2-3 years; this was necessary to ensure the full, timely and successful implementation of each of the services. It is appreciated that whilst the joint risks were not updated on the Council's own risk register through 'Excelsis', more general risks covering the Multi Service Contract services were recorded. Joint risks had been reported regularly, pre and post service implementation to both the 'Task and Finish Group' of cross party Members and Officers and the 'Environmental Service Partnership Board' (ESPB) as a 'live and dynamic' process. In future, key service risks emanating from the joint risk register will be reported through the Council's risk management register 'Excelsis'. Completion date: 30/11/17
Audit follow up position (September 2018): Action plan developed Updates to the Council's risk management register for the multi services contract risks have been undertaken by management resulting in a reduction in operational risks from five to three. A review by Internal Audit of the remaining risks highlighted that they required

updating to reflect current information and further work was required to identify all potential risks to the service provision are recorded and managed. The Head of Community Services advised that an appropriate review will be undertaken and the risk register updated accordingly by 30 November 2018.
Management update – action taken as at January 2019 and/or proposed Although Ubico's risk register is reviewed at management meetings and at ESPB meetings, Excelsis has been updated to reflect SDC risks. These have been updated and will be reviewed going forward. - MH

Recommendation 4 – Business Continuity Plan (BCP)
Original recommendation (November 2017) Obtain a copy of the Ubico Ltd business continuity plan and confirm in conjunction with Emergency Planning that it is fit for purpose and that the plan adequately covers and manages for the loss of service(s) on a temporary basis and over the long term in the event of a disruption.
Original management response The Business Continuity Plan (BCP) will be reviewed over the coming months. It should be identified that the decision to use Ubico Ltd for the delivery of this new contract was in part made due to the flexibility the contracting arrangement had over the conventional relationship with a private sector company. It stands to reason that to move forward on this matter constructively and ensure emergency situations are well managed in future, the BCP should remain as flexible as possible. Completion date: 31/03/18
Audit follow up position (September 2018): Action plan developed A review of the Ubico Ltd BCP was undertaken by the previous Public Space Manager during December 2017, which resulted in further updates being made to the BCP. In addition he requested a copy of the Emergency Management Plan referred by Ubico Ltd in the BCP, which details how the company would respond to an emergency situation. Internal Audit cannot confirm that this has been provided, however, the updated BCP does not refer to this document. The BCP without the Emergency Management Plan does not in Internal Audit's opinion provide sufficient detail to enable management to confirm that Ubico Ltd's emergency planning arrangements are, for Council purposes, robust and effective to adequately manage a short or long term disaster event(s). Arrangements are being made by the Senior Community Services Officer to contact other authorities that commission Ubico Ltd for similar operations. This is to gain an understanding of their BCP arrangements with Ubico Ltd and to use their experience and knowledge to ensure that the Ubico Ltd BCP for the Council is effective, robust and fully co-ordinated with the other authorities and service providers.

A revised resolution date of 30/11/2018 has been given by the Senior Community Services Officer to fully implement this.
Management update – action taken as at January 2019 and/or proposed Ubico updated their Business Continuity Plan in October 2018. This has been reviewed and in the opinion of Emergency Planning is suitable for the needs of SDC. Further this the plan discussed at ESPB.

Review area: Cost control and management

Recommendation 5 – financial and risk reporting
Original recommendation (November 2017) Ubico Ltd should be formally instructed to provide detailed, up to date financial and risk reports to the Client / Contractor meetings and quarterly to the ESPB, which clearly show actual spend against budget, explanations for variances and spend forecasts to the end of the financial year and any potential and emerging risks associated with service delivery. These financial and risk reports should be presented to officers and Members in advance of the meetings to enable them to be fully scrutinised and ensure that there is effective discussion and robust challenge.
Original management response Council officers, alongside the direct support provided by Members and Chief Officers, have over this past year encouraged Ubico Ltd to provide more detailed, accurate and timely financial information relating to the Multi Service Contract. Whilst there have been improvements in Ubico Ltd financial reporting, it is clear that greater progress is needed. Both Public Space Services and the Council's Finance service continues to press Ubico Ltd in this respect. A further meeting is being arranged between SDC and Ubico Ltd Finance teams to finalise improved finance reporting. Completion date: 30/11/17
Audit follow up position (September 2018): Recommendation completed Finance has taken a leading role in ensuring regular monthly financial reports relating to budget setting and budget monitoring are received and actively scrutinised, which has provided a positive impact. In addition frequent meetings are being held between Finance, Community Services management and Ubico Ltd to discuss the financial position of the multi services contract and aspects of the service provision. Ubico Ltd have not always provided timely answers to all Finance queries over the reported financial information and some queries still remain outstanding at the point in time of this audit follow-up review. The above said, Internal Audit can provide reasonable assurance that the recommendation has now been implemented. However, Finance and Community Services management should continue their focus on ensuring the accuracy and timeliness of the financial information from Ubico Ltd and query resolution to ensure effective budget monitoring and management.

Management update – action taken as at January 2019 and/or proposed
N/A – Recommendation implemented

Recommendation 6 – service specification
Original recommendation (November 2017) Update the service specification that is included in the appendices to the contract so that they clearly and fully detail Ubico Ltd roles and responsibilities and expected service delivery. The updated service specification should be approved by Public Space management and Ubico Ltd.
Original management response Owing to the level of service changes and their successful implementation, it is clear that in the main, the distinction between council and contractor responsibilities are reasonably well established. However, a review will be undertaken albeit with the recognition that there will be minor issues that will have arisen, some as a direct result of service changes made after the contractor's original service proposal was made and others that have arisen as a direct result of increased service demand beyond either the council's or Ubico Ltd control and expectations. The latter are being closely monitored. Completion date: 31/03/18
Audit follow up position (September 2018): Action plan developed The services of the Association of Public Service Excellence (APSE) has been commissioned by Community Services management during July 2018 to independently review the waste and recycling service provision, in order to establish whether the Council is receiving value for money and to identify additional savings. This review does not include other elements of the multi services contract such as street cleaning, grounds maintenance, etc. A formal report of their findings is expected to be issued in October 2018 and early indications, verbally communicated to Internal Audit by the Head of Community Services, are that the Council is receiving value for money. The information and work performed by APSE in establishing the waste and recycling service being delivered by Ubico Ltd is to be used by Community Services to benchmark against current Community Services management expectations, contract and to use as the basis for the service specification going forward. Community Services officers will also commence a review of the remaining services to fully detail Ubico Ltd roles and responsibilities and expected service delivery. The street cleaning service provision review will be commenced in September 2018 followed thereafter by the other activities with full completion of the recommendation by 31 March 2019.
Management update – action taken as at January 2019 and/or proposed Work on this recommendation is ongoing and although the timescale is

ambitious, a dedicated resource will be given in the first three months of 2019 to ensure completion. The APSE report has now been finalised and as reflected above, concludes that: 'Ubico is providing value for money but is reliant upon the goodwill, creative and flexible use of resources and good management'. - MH

Review area: Change control

Recommendation 7 – service provision change / contract variation
Original recommendation (November 2017) Details of officers who have been delegated with authority to submit and approve a change / variation to the service provision including their financial limit of authority should be documented and approved by the Strategic Head (Customer Services). The approved schedule of authorised officers and their delegated financial limits should then be provided to Ubico Ltd as part of the Communications Protocol. All changes / variations to the service provision as per the contract should be documented and include the financial cost and implication to the annual contract sum so that the Council is fully aware of the financial effect of the change , effect on budgets and can verify the additional charge(s) from Ubico Ltd. Variations to the annual service charge should therefore, where appropriate, be supported by an approved change / variation schedule. In addition Ubico Ltd should be clearly advised that any changes that they wish to make to the service must go through the change control process as per the contract.
Original management response Notwithstanding two pieces of additional work that has been separately charged for, outside of the Multi Service Contract, changes made to the contract within the last twelve months have constituted only minor variations, the majority of which have limited or no adverse impact on the use of the contractors resources as the changes are accommodated within the contractors daily workload without the requirement for additional resource. There are also other relatively minor changes that require additional work resulting from for example land adoptions through Section 106 Planning Agreements and additional domestic properties coming online; the council is obligated to accommodate the additional work these issues generate. It is recognised that the processing of contract variations is critical to maintaining control over contract expenditure. However, the council no longer uses a private sector contractor and therefore has no in-built mechanism to evaluate each contract variation on a cost basis. Decisions on the impact of contract variations are now determined by whether they can be accommodated within the contractor's existing resources. This will be tracked and reported over time to monitor the cumulative effect. Completion date: 30/11/17
Audit follow up position (September 2018): Action plan developed

A change / variation flowchart, forms and registers to capture all changes to the contract or service provision have been developed, but not fully introduced at the point of this review. Internal Audit has raised six observations following a review of the proposed process and documents to further strengthen the procedures, risk management and control, which has been accepted by the Community Services Senior Business Support Officer. In addition two elements of the recommendation detailed below had not been implemented at the time of this review: -Details of officers who have been delegated with authority to submit and approve a change / variation to the service provision including their financial limit of authority should be documented and approved by the Director of Customer Services. The approved schedule of authorised officers and their delegated financial limits should then be provided to Ubico Ltd as part of the Communications Protocol; and -Ubico Ltd should be clearly advised that any changes that they wish to make to the service must go through the change control process as per the contract. The Head of Community Services advised that Internal Audit observations and the identified remaining parts of the recommendation will be completed by 30 November 2018.
Management update – action taken as at January 2019 and/or proposed This recommendation has now been implemented and reference to approval is contained within the Communications Protocol, this has been ratified by all ESPB members at the January meeting, this included Ubico management. - MH

Review area: Monitoring and management of performance

Recommendation 8 – Key Performance Indicator (KPI) reporting
Original recommendation (November 2017) The current reporting of the KPIs should be improved to include the following: • Clearly present and give prominence to the KPIs within the reporting schedule; • Targets for each of the KPIs should be clearly shown against the actual performance result; • Performance results should be subject to verification by Public Spaces to confirm the information reported is correct; and • Where adverse variances to targets are highlighted detailed explanations for the reasons are reported
Original management response KPIs are regularly monitored and reported to Environment Services Partnership Board (ESPB). Meaningful targets exist for the waste indicators and the minutes do reflect Officers comments on this matter; targets for non waste related services will be identified. Changes to performance verification should ensure a more consistent and accurate reporting. The absence of a

narrative on poor performance is noted and will be improved. Completion date: 31/12/17
Audit follow up position (September 2018): Action plan developed A review of the KPIs by the previous Public Space Manager was undertaken, which resulted in the number of KPIs being increased from six to 21. However, they have not been implemented as at the point in time of this audit follow-up review. The Head of Community Services advised that the KPIs have not been approved by Ubico Ltd or the current Community Services management and they are not now considered appropriate. A review is to be performed by Community Services officers, including Ubico Ltd to establish and agree on performance measures that effectively demonstrates and evaluates how successful the company is in achieving the service provision targets / objectives. The reporting format of the KPI results to the ESPB will also form part of this review. The Head of Community Services advised that the review would be completed and KPIs approved by 31 January 2019 and be effective from 1 April 2019.
Management update – action taken as at January 2019 and/or proposed At the time of writing nine KPI's have been put forward as an effective tool to monitor performance, this is a reduction from twenty one. Discussions with Ubico are being undertaken to agree aspirational but achievable targets. These will become operational from 1st April 2019. - MH

Recommendation 9 – review of KPIs
Original recommendation (November 2017) A review (annually thereafter) of the KPIs should be undertaken by Public Space management to ensure that they remain fit for purpose and provide a broad and effective assessment of Ubico Ltd performance across all the services that form part of the multi service contract. In addition, relevant KPIs should be introduced to ensure that the Council's current objectives and priorities are also being met. Any changes to the KPIs following the review should be discussed and formally agreed with Ubico Ltd with the decisions being taken via the relevant governance board / group or officer with delegated authority.
Original management response KPIs form part of the Multi Service Contract but it is recognised that they centre mainly on the waste services. KPIs are less well developed for the other services and so this will be a key area to improve upon whilst ensuring they present clear benefit and understanding of performance. New KPIs will be presented to ESPB for approval. Completion date: 31/12/17
Audit follow up position (September 2018): Action plan developed As for recommendation 8.
Management update – action taken as at January 2019 and/or proposed As above, but it should be noted that the whole service (inc. Neighbourhood

Wardens) will be trained in the use of a new monitoring system in January 2019. This Land Audit Management System is a quality inspection system, which can be used to assess street cleaning and grounds maintenance standards. In the fullness of time, the results of these inspections will be integrated in to a new KPI. - MH

STROUD DISTRICT COUNCIL

AGENDA ITEM NO

AUDIT AND STANDARDS COMMITTEE

29 JANUARY 2019

7

Report Title	**INTERNAL AUDIT ACTIVITY PROGRESS REPORT 2018/19**
Purpose of Report	To inform Members of the Internal Audit activity progress in relation to the approved Internal Audit Plan 2018/19.
Decision(s)	The Committee **RESOLVES** to: • Accept the progress against the Internal Audit Plan 2018/19; and • Accept the assurance opinions provided in relation to the effectiveness of the Council's control environment comprising risk management, control and governance arrangements as a result of the Internal Audit activity completed to date.
Consultation and Feedback	Internal Audit findings are discussed with Service Heads/Managers. Management responses to recommendations are included in each assignment report.
Financial Implications and Risk Assessment	There are no financial implications arising directly from this report. Andrew Cummings – Head of Finance & S151 Officer Tel: 01453 754115 Email: andrew.cummings@stroud.gov.uk Risk Assessment: Failure to deliver an effective Internal Audit service will prevent an independent, objective assurance opinion from being provided to those charged with governance that the key risks associated with the achievement of the Council's objectives are being adequately controlled.
Legal Implications	The legal framework concerning the requirements regarding internal audit are set out in the opening section of the report. The Committee should ensure it is satisfied that the steps proposed are sufficient to alleviate the risks identified; it is open to the Committee to request further information to ensure that an informed decision can then be made. Nicola Swan**,** Interim Head of Legal Services & Monitoring Officer Tel: 01453 754369 Email: nicola.swan@stroud.gov.uk

Report Author	Theresa Mortimer, Head of Audit Risk Assurance (Chief Internal Auditor) Tel: 01453 754111 Email: theresa.mortimer@stroud.gov.uk
Options	There are no alternative options that are relevant to this matter.
Performance Management Follow Up	In accordance with the Public Sector Internal Audit Standards 2017 (PSIAS) and reflected within the Audit and Standards Committee work programme, Internal Audit reports on progress against the approved Internal Audit Plan 2018/19. These are scheduled to be presented to Audit and Standards Committee at the May and July 2019 meetings.
Background Papers/ Appendices	**Appendix A** – Internal Audit activity progress report 2018/19. **Background papers:** ➢ Internal Audit Plan 2018/19; ➢ PSIAS; and the ➢ CIPFA Local Government Application Note for the UK PSIAS.

1.0 Background

1.1 Members approved the Internal Audit Plan 2018/19 at 10th April 2018 Audit and Standards Committee meeting. In accordance with the PSIAS, this report (through **Appendix A**) details the outcomes of Internal Audit work carried out in accordance with the approved Plan.

1.2 The Internal Audit activity progress report 2018/19 at **Appendix A** summarises:

- The progress against the Internal Audit Plan 2018/19, including the assurance opinions on the effectiveness of risk management and control processes;
- The outcomes of the Internal Audit activity during December 2018;
- Special investigations/counter fraud activity; and
- The Car Parking Review.

1.3 The report is the third progress report in relation to the Internal Audit Plan 2018/19.

Internal Audit Activity
Progress Report
2018-2019

ARA AuditRiskAssurance

STROUD DISTRICT COUNCIL

Audit and Standards Committee
29 January 2019

Agenda Item 7
Appendix 1

(1) Introduction

All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2015. The latter states that a relevant authority "must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance". The Internal Audit Service is provided by Audit Risk Assurance under a Shared Service agreement between Stroud District Council, Gloucester City Council and Gloucestershire County Council and carries out the work required to satisfy this legislative requirement and reports its findings and conclusions to management and to this Committee.

The guidance accompanying the Regulations recognises the Public Sector Internal Audit Standards 2017 (PSIAS) as representing "proper internal audit practices". The standards define the way in which the Internal Audit Service should be established and undertake its functions.

(2) Responsibilities

Management are responsible for establishing and maintaining appropriate risk management processes, control systems (financial and non financial) and governance arrangements. Internal Audit plays a key role in providing independent assurance and advising the organisation that these arrangements are in place and operating effectively. Internal Audit is not the only source of assurance for the Council. There are a range of external audit and inspection agencies as well as management processes which also provide assurance and these are set out in the Council's Code of Corporate Governance and its Annual Governance Statement.

(3) Purpose of this Report

One of the key requirements of the standards is that the Chief Internal Auditor should provide progress reports on internal audit activity to those charged with governance. This report summarises:

- The progress against the 2018/19 Internal Audit Plan, including the assurance opinions on the effectiveness of risk management and control processes;
- The outcomes of the Internal Audit activity during December 2018;
- Special investigations/counter fraud activity; and
- The outcome of the car parking review.

(4) Progress against the 2018/19 Internal Audit Plan, including the assurance opinions on risk and control

The schedule provided at **Attachment 1** provides the summary of 2018/19 audits which have not previously been reported to the Audit and Standards Committee.

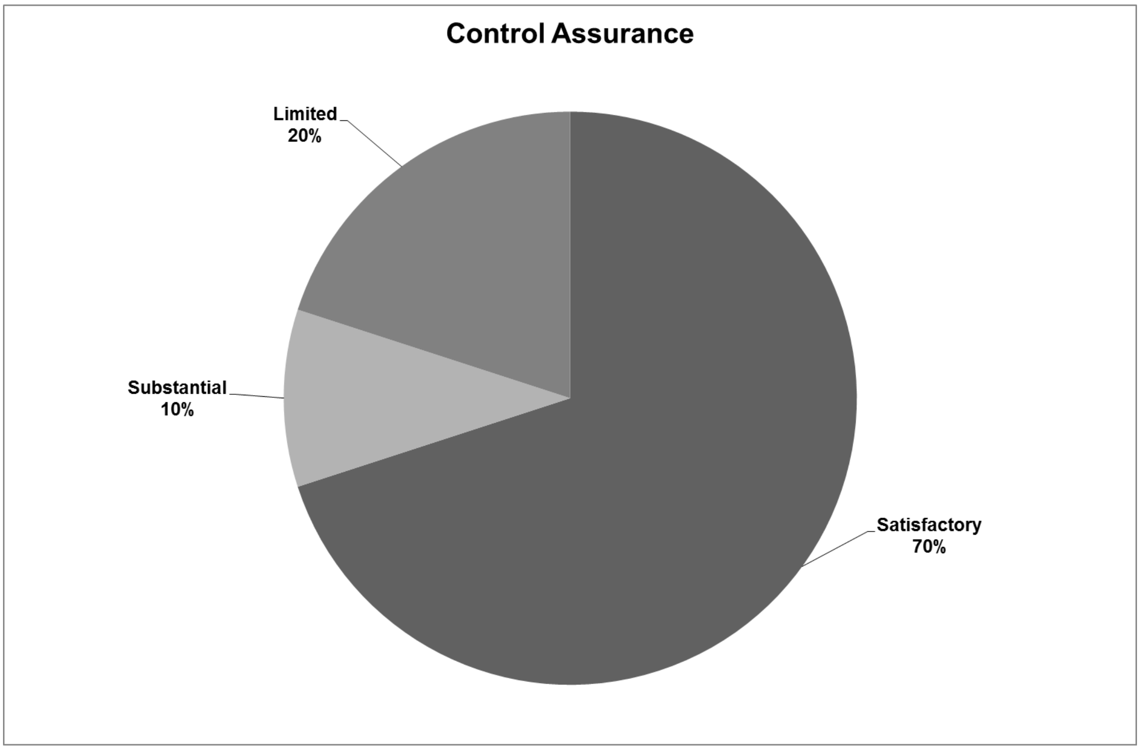
The schedule provided at **Attachment 2** contains a list of all of the 2018/19 Internal Audit Plan activity undertaken during the financial year to date, which includes, where relevant, the assurance opinions on the effectiveness of risk management arrangements and control processes in place to manage those risks and the dates where a summary of the activities outcomes has been presented to the Audit and Standards Committee. Explanations of the meaning of these opinions are shown in the below table.

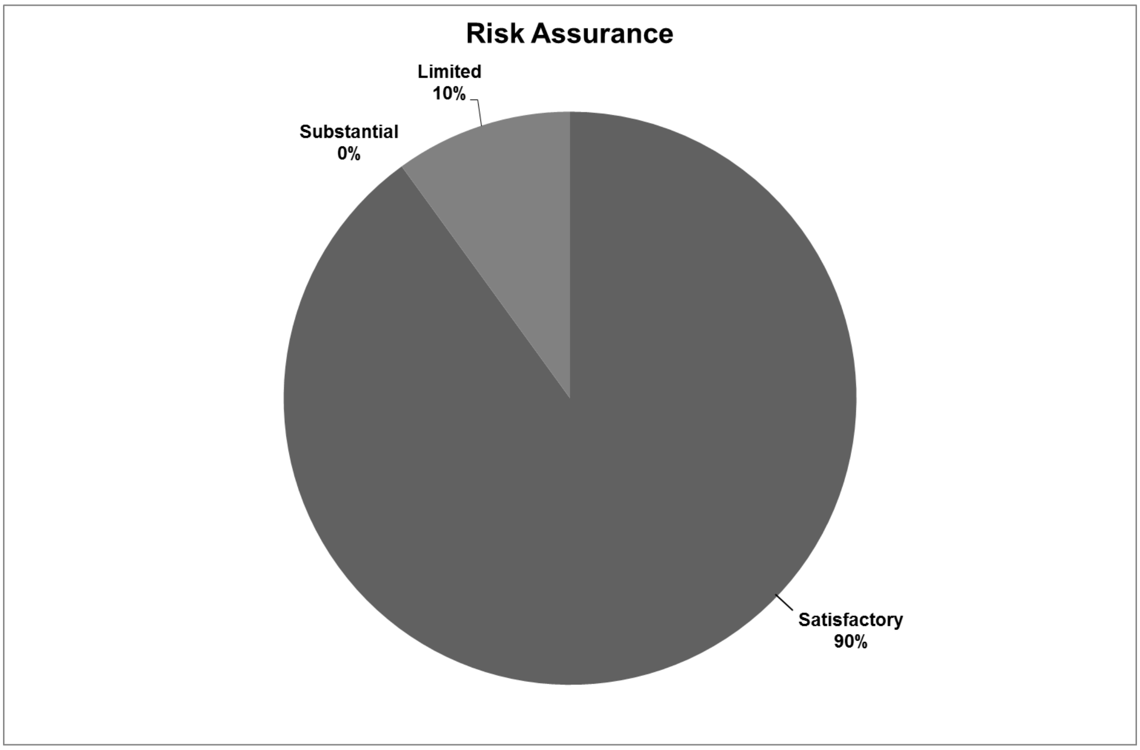
The outcome of the car parking review – **Attachment 3.**

Assurance Levels	Risk Identification Maturity	Control Environment
Substantial	**Risk Managed** Service area fully aware of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, client/customer/partners, and staff. All key risks are accurately reported and monitored in line with the Council's Risk Management Policy.	• System Adequacy – Robust framework of controls ensures that there is a high likelihood of objectives being achieved • Control Application – Controls are applied continuously or with minor lapses
Satisfactory	**Risk Aware** Service area has an awareness of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, client/customer/partners, and staff. However some key risks are not being accurately reported and monitored in line with the Council's Risk Management Policy.	• System Adequacy – Sufficient framework of key controls for objectives to be achieved but, control framework could be stronger • Control Application – Controls are applied but with some lapses
Limited	**Risk Naïve** **Due to an absence of accurate and regular reporting and monitoring of the key risks in line with the Council's Risk Management Policy, the service area has not demonstrated a satisfactory awareness of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, client/customer/partners and staff.**	• **System Adequacy – Risk of objectives not being achieved due to the absence of key internal controls** • **Control Application – Significant breakdown in the application of control**

(4a) Summary of Internal Audit Assurance Opinions on Risk and Control

The pie charts below show the summary of the risk and control assurance opinions provided within each category of opinion i.e. substantial, satisfactory and limited in relation to the audit activity undertaken during the period April 2018 - December 2018.





(4b) Limited Control Assurance Opinions

Where audit activities record that a limited assurance opinion on control has been provided, the Audit and Standards Committee may request Senior Management attendance to the next meeting of the Committee to provide an update as to their actions taken to address the risks and associated recommendations identified by Internal Audit.

(4c) Audit Activity where a Limited Assurance Opinion has been provided on Control

During December 2018, no limited assurance opinions on control have been provided on completed audits from the 2018/19 Internal Audit Plan.

(4d) Satisfactory Control Assurance Opinions

Where audit activities record that a satisfactory assurance opinion on control has been provided, where recommendations have been made to reflect some improvements in control, the Committee can take assurance that improvement actions have been agreed with management to address these.

(4e) Internal Audit Recommendations

During December 2018 Internal Audit made, in total, **4** recommendations to improve the control environment, **0** of these being high priority recommendations (**100%** of these being accepted by management) and **4** being medium priority recommendations (**100%** accepted by management).

The Committee can take assurance that all high priority recommendations will remain under review by Internal Audit, by obtaining regular management updates, until the required action has been fully completed.

(4f) Risk Assurance Opinions

During December 2018, please note that no limited assurance opinions on risk have been provided on completed audits from the 2018/19 Internal Audit Plan.

Completed Internal Audit Activity during December 2018

Summary of Satisfactory Assurance Opinions on Control

Service Area: **Development Services**

Audit Activity: **Food Hygiene Inspections**

Background

The Food Standards Agency (FSA) is the independent regulator that protects consumers through effective food enforcement and monitoring. As a central government department, the FSA works with local authorities to help them take proportionate, timely and resolute action in relation to food safety in their area.

All food businesses that prepare, produce, cook or sell food within the Stroud district are required to register with Stroud District Council (the Council) by law and they must comply with strict hygiene standards.

The Council is responsible for carrying out programmed inspections of premises and advising businesses of legal requirements and best practice, alongside investigating incidents, outbreaks and causes of accidents. As at 1st April 2018 there were 1,217 food premises in the District (information obtained from the Council's Food Service Plan 2018-19).

Environmental Health utilise the Uniform system to record all food operators and manage its inspection routines in accordance with the Council's responsibilities and commitments, Food Safety Code of Practice and Food Law.

Scope

This review was undertaken to determine whether there is a robust framework in place for ensuring that timely food safety inspections are being conducted. The period of this review was for the financial year 2017-18 and the period April to November 2018.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key Findings

The Council reported in its 2016-17 annual return to the FSA that 76.18% of all its high and low risk (category A-E) food establishments due an inspection were completed.

This ranked the Council 279 out of 356 food authorities in England, Wales and Northern Ireland and resulted in intervention from the FSA and focus by them on the Council's inspection regime and improvement plan for 2017-18.

The number of food establishment inspections completed against inspections due improved during 2017-18 due to the use of agency workers and the employment of staff to replace those that had left the Council. This improvement resulted in an inspection level of 93.77%, the Council being ranked as 168 and the FSA intervention being closed due to the 'positive performance trend' achieved by the Council.

Management monitoring is undertaken to confirm the quality and consistency of food establishment inspections and level of overdue inspections, but documentary evidence of the reviews have not always been evidenced or retained. Therefore Internal Audit was unable to confirm the completeness and effectiveness of the monitoring regime.

A review by Internal Audit of overdue food establishment inspections as at 17th September 2018 highlighted 46 premises, in categories C, D and E, were more than 28 days over the due date for inspection and 89 unrated (new food establishments) were awaiting inspection. According to the Food Law Code of Practice unrated establishments should be inspected "within 28 days of registration or from when the authority becomes aware that the establishment is in operation", some of the 89 unrated businesses would be in this category.

Since this date management and officers have, during October and November 2018, made a concerted and positive effort in reducing the number of overdue inspections to 39 and 32 respectively. All the rated and 19 of the unrated food establishments' overdue inspections are more than 28 days past their due date which is outside of the FSA requirements.

Two performance measures relating to the compliance of food establishments with food hygiene law and inspections completed are managed and reported on the Council's risk management and performance system Excelsis. The targets for each have not been achieved for the last three years. In addition the actual results are updated annually rather than at least quarterly and there is no inspection performance measure for low risk food establishments. As a result senior management may not be promptly informed of the performance of the service or the completeness of the inspection regime and therefore any corrective measures may be unduly delayed.

The Council's Risk Management Policy Statement and Strategy states that risks should be recorded in the Council's risk register (Excelsis) and kept up to date to demonstrate awareness and mitigation of the risks affecting the service.

A review of the Council's risk register for Commercial Services operational risks established that there was no specific risk relating to the inspection regime for food establishments.

Conclusion

Internal Audit review findings confirmed a positive direction of travel regarding completion of food hygiene inspections for 2018-19 through a review of the level of outstanding inspections as at 17th September, which have been subsequently inspected during October and November 2018. This supports a satisfactory assurance opinion for this audit.

Management Actions

Three Medium Priority recommendations have been raised by Internal Audit as follows:

- Maintain documentary evidence of all management monitoring control checks;
- Prompt update of the results against the two performance measures recorded on Excelsis and the inclusion of an additional performance measure relating to the level of inspections for low risk food establishments; and
- Update the Council's Risk Register to include the operational risk(s) relating to non compliance with regulations / guidance and reflection of managements risk appetite.

These three recommendations have been accepted in full.

Service Area:	**Customer Services**
Audit Activity:	**The Pulse (Dursley) Limited Assurance Follow Up**

Background

The Pulse, formally known as Dursley Pool, is the new swimming pool, gym and fitness studio in Dursley. The Pulse offers a wide range of classes and activities for the local community as well as public swimming lessons.

In the first full year of operation (2016-17) The Pulse actual income exceeded the budget by approximately £300k, which resulted in a reduction in the subsidy from the Council to approximately £90k, from £270k in 2016-17.

During 2017-18 Internal Audit undertook a review of the operating effectiveness of the internal control environment in respect of income collection.

The findings emanating from the review highlighted material issues with the cash up and banking process resulting in three high and four medium priority recommendations being raised and a limited assurance opinion being provided.

Scope

To provide assurance that the recommendations raised in the 2017-18 audit of The Pulse have been fully implemented or there is an approved action plan to demonstrate how and when they will be implemented.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key Findings

The follow-up review established that three high and two medium priority recommendations had been implemented and the remaining two medium priority recommendations were partially implemented at the point of follow-up as detailed below:

Medium priority recommendation 3 – Cash and card differences.

Original completion date – April 2018.

The General Manager has determined that cash differences greater than £50 should be subject to further investigation, which has been confirmed by Internal Audit's review of cash differences for the period April to August 2018.

Regular debit / credit card differences are being highlighted in the income control reconciliations, (up to approximately £700), but there is a lack of documentary evidence to confirm investigations for these differences over £50, has been performed.

It is important that further work is undertaken by officers to fully understand the reason(s) for these differences and to make suitable corrections where appropriate. An additional medium priority recommendation has been raised by Internal Audit to this effect.

The General Manager had, as at 12th November 2018, formally approved the four journals raised by Pulse officers for posting cash and debit / credit card differences to the Under / Over general ledger account. Income differences highlighted in the May 2018 income control reconciliation totalling net £342.59 had not however been subject to a journal to the Under / Over general ledger account at the point of the follow-up. In addition corrections were required to the July 2018 posted difference journal to correctly reflect the net differences for this month.

Internal Audit advised the Duty Manager of the issues and appropriate corrections have now been made.

Medium priority recommendation 6 – Debt recovery.

Original completion date – May 2018.

The General Manager has drafted manual guidance for the application for unpaid fitness class penalty fees or 'dishonour payments', which was approved by the Interim Section 151 Officer during May 2018. In addition the Interim Section 151 Officer also confirmed with the General Manager that the debt write-off process as detailed in the Financial Regulations should apply.

The process for writing-off / dealing with credit balances on the leisure management system has not, at the point of the follow-up, been formally determined.

The General Manager has provided details of customer debts totalling approximately £1,600 (five customers) for write-off as at July 2018 to the Interim Section 151 Officer for approval. At the point of this follow-up approval has not yet been received, despite repeated contact with the Accountancy Manager, and as a result no further debt recovery action on these cases has been undertaken by The Pulse officers.

The above two recommendations, determined as partially implemented by Internal Audit, will be subject of continuing monitoring by Internal Audit with the General Manager to confirm full completion of the actions.

Internal Audit has provided additional support to the General Manager and officers in the performance of the reconciliations for the period June to September 2018. However, future on-going support should now move towards Finance to avoid Internal Audit becoming part of the front line control and to maintain its independence.

Conclusion

Positive progress has been made by management and officers in implementing the recommendations as raised by Internal Audit in the February 2018 audit report. This has resulted in an improved control environment assurance opinion being provided by Internal Audit for this follow-up review from originally 'limited' assurance to 'satisfactory' assurance.

Management Actions

Positive assurance has been provided to fully implement the two outstanding medium priority recommendations and have agreed to the implementation of an additional medium priority recommendation raised relating to income differences.

Service Area:	**Finance**
Audit Activity:	**Local Government Pension Scheme (LGPS) Limited Assurance Follow Up**

Background

In April 2014 the Local Government Pension Scheme (LGPS) was revised. The new scheme known as LGPS14 is a career average pension scheme rather than a final salary scheme.

During 2016/17 Internal Audit conducted a review of Stroud District Council's (the Council) arrangements for compliance with the revised scheme. The findings emanating from the review (report issued June 2017) highlighted that certain aspects of the Local Government Association (LGA) guidance were not operating as intended. This led to a split assurance opinion being given over the control environment, with limited assurance being given over four areas that required improvement as follows:

- Calculation of assumed pensionable pay for individuals on sickness and maternity leave;
- Scheme for staff to purchase additional leave;
- Calculation of final salary for staff leavers who were members of the LGPS prior to 1st April 2014; and
- Reporting of employee contractual changes to Pensions.

As a result five high and four medium priority recommendations were made to support management in the provision of a robust control environment and ensure adherence to LGA guidance.

Scope

This follow-up review sought to determine whether the recommendations emanating from the original 2016/17 internal audit had now been fully implemented.

Risk Assurance – Satisfactory

Control Assurance – Satisfactory

Key Findings

The follow-up review established that two high and three medium priority recommendations had been implemented. The remaining four audit recommendations (three high and one medium priority) were confirmed as in progress at the point of follow-up as detailed below:

High priority recommendation 1 – Calculation of Assumed Pensionable Pay (APP).

Original completion date – 31st December 2017.

The previous payroll provider has now informed Finance of the correct process, after operating and initially providing incorrect details, for processing Occupational Maternity Pay (OMP) and Keeping in Touch (KIT) days.

Finance has applied this new process from April 2018 and has introduced a manual control check to confirm that the payroll system is correctly calculating APP for employees in receipt of OMP or KIT days.

Thirty eight employees, up to February 2017, have been identified by the Principal Accountant as affected by the incorrect APP. Further work is required by Finance, in consultation with Pensions Administration, to determine the pension corrections required to each of the employee’s pension records. This work has been delayed due to Finance work commitments.

In addition work is also required to establish if there are any other employees affected by this issue from February 2017 to March 2018.

High priority recommendation 5 – Representations to the pension fund regarding last year’s return.

Original completion date – 31st May 2017.

Pensions Administration has provided Finance in October 2017 with details of mismatched employee pension records based on Finance pension annual returns submitted for the financial years 2014/15 to 2016/17. In addition Finance obtained a snapshot from the pensions administration system and compared the report to the payroll system, which also identified a number of discrepancies.

Finance is currently working through the reported differences, which requires a significant amount of their time to identify and resolve.

Forming part of 'business as usual' control checks, Finance has obtained in February 2018 a further snapshot of the pensions administration system to review to the payroll system and is planning to obtain another snapshot in January 2019. In addition, Pensions Administration has provided Finance in May 2018 details of employee pension queries for resolution following Finance submission of the 2017/18 annual pension return.

As at 11th September 2018 the current position regarding resolution of the pension differences highlighted in the different reports are as follows:

	October 2017 Queries from pension annual return.	October 2017 pensions administration system snapshot.	February 2018 pensions administration system snapshot.	May 2018 Queries from pension annual return.
	No. of employees			
Total pension differences	20	49	35	37
Resolved	13	36	21	19
Outstanding	7	13	14	18

Note: Some of the above pension differences highlighted in the reports represents the same employee.

The differences mainly relate to employees that have left the Council, but Pensions Administration has not been informed or where two or more records of an employee are held on the pensions administration system rather than one.

High priority recommendation 7 – Staff pension training.

Original completion date – Ongoing.

The Principal Accountant targets to book staff pensions training for relevant officers within 2018/19.

Medium priority recommendation 8 – Exercise to check pre-1st April 2014 service for all active and deferred members.

Original completion date – 31st May 2017.

An initial request was made of Pensions Administration for the appropriate data to perform the exercise, however they were not at the time able to provide the required information.

The Principal Accountant confirmed that a further request for the required information will be made again to the Pensions Administration Manager once all Internal Audit recommendations have been completed.

Conclusion

Progress has been made in implementing the recommendations as raised by Internal Audit in the June 2017 Audit Report.

Three high and one medium priority recommendations remain outstanding (but in progress) as at the point of audit follow-up. Finance should ensure that sufficient resources and time are committed to fully implementing the recommendations and resolving the known employee pension differences identified from the ‘business as usual’ control checks.

Summary of Special Investigations/Counter Fraud Activities

Current Status

During 2018/19 to date 14 potential irregularities have been referred to Internal Audit, 12 of which have previously been reported to the Audit and Standards Committee. The two new cases relate to revenue and benefit claims, one which has now been closed with no issue and the other is pending further assessment. The cases referred in 2018/19 to date primarily relate to tenancy issues, benefits/council tax and right to buy.

In respect of the majority of cases referred in 2018/19 ARA has liaised with Gloucestershire Counter Fraud Unit (CFU) to investigate potential irregularities. Of the cases referred in 2018/19 10 have now closed with varying outcomes; the details of five have previously been reported to the Audit and Standards Committee. Of the five cases not previously reported one only required advice, in respect of three other cases there was insufficient evidence and the cases were not proven, and in the final case although there was insufficient evidence for a formal charge the council tax was recalculated resulting in additional income to the Council of just over £600.

In addition ARA/CFU continued to work on four cases brought forward from 2017/18. Two of these cases have now closed, and have previously been reported to the Audit and Standards Committee.

ARA previously reported a commissioned piece of work, through the CFU, on RTB which identified an additional six cases requiring further review.

Two of these have now been closed with no issues identified, and in respect of a further two there are also no RTB issues however there are potential housing benefit and council tax queries to be followed-up. The remaining two cases are still being investigated.

Any fraud alerts received by Internal Audit from the National Anti-Fraud Network (NAFN) are passed onto the relevant service area within the Council, to alert staff to the potential fraud.

National Fraud Initiative (NFI)

Internal Audit continues to support the NFI which is a biennial data matching exercise administered by the Cabinet Office. The 2018/19 data collections have been successfully uploaded to the Cabinet Office during October 2018 and data matching reports will be provided for investigation from January 2019 onwards. Examples of data sets include housing, insurance, payroll, creditors, council tax, electoral register and licences for market trader/operator, taxi drivers and personal licences to supply alcohol. Not all matches are investigated but where possible all recommended matches are reviewed by either Internal Audit or the appropriate service area.

In addition, there is an annual data matching exercise undertaken relating to matching the electoral register data to the single person discount data held within the council. Once all relevant data has been uploaded onto the NFI portal, a data match report is instantly produced and available for analysis.

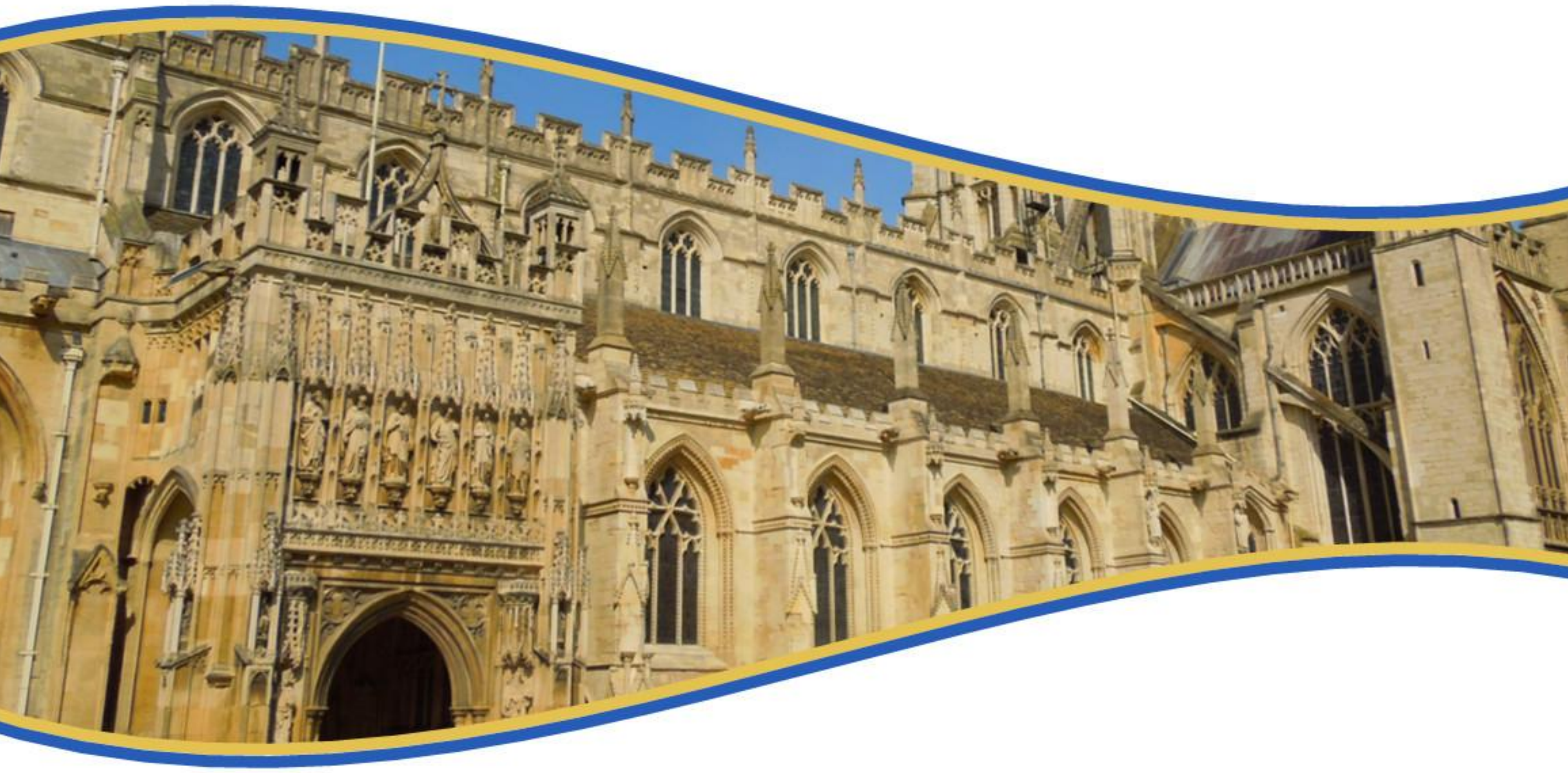
Progress Report including Assurance Opinions

Department	Activity Name	Priority	Activity Status	Risk Opinion	Control Opinion	Reported to Audit and Standards Committee	Comments
Council Wide	Workforce - Programme Management	High	Audit in Progress				Position statement to Audit and Standards
Council Wide	Workforce Plan - Transitional Arrangements	High	Audit in Progress				Consultancy
Council Wide	Capital Programme Limited Assurance Follow Up	High	Planned				
Council Wide	Procurement	High	Final Report Issued	Satisfactory	Satisfactory	09/10/2018	Brought Forward from 17/18 plan
Council Wide	Legacy Software	High	Final Report Issued	Satisfactory	Limited	09/10/2018	Brought Forward from 17/18 plan
Development Services	Food Hygiene Inspections	High	Final Report Issued	Satisfactory	Satisfactory	29/01/2019	
Customer Services	Business Continuity	High	Planned				
Customer Services	Business Rates Evaluation List	High	Planned				
Customer Services	Multi Services Contract Follow Up	High	Final Report Issued	Limited	Limited	09/10/2018	
Customer Services	Subscription Rooms - Risk Management	High	Planned				Terms of Reference issued
Customer Services	Homelessness	High	Audit in Progress				Brought Forward from 17/18 plan
Customer Services	The Pulse Dursley Limited Assurance Follow Up	High	Final Report Issued	Satisfactory	Satisfactory	29/01/2019	
Finance	Banks Automated Clearing System (BACS)	High	Final Report Issued	Satisfactory	Satisfactory	26/07/2018	
Finance	Budget Savings	High	Audit in Progress				
Finance	Communications (Publication of Financial Information)	High	Audit in Progress				
Finance	Debt Collection and Recovery	High	Audit in Progress				
Finance	Insurance	High	Cancelled				Refer to insurance tender consultancy review
Finance	Local Government Pension Scheme (LGPS) Limited Assurance Follow Up	High	Final Report Issued	Satisfactory	Satisfactory	29/01/2019	
Tenant & Corporate Services	Competency Framework	High	Planned				
Tenant & Corporate Services	Contract Management (Mechanical and Electrical Payment Mechanisms)	High	Final Report Issued	Satisfactory	Substantial	09/10/2018	
Tenant & Corporate Services	Depooling of Rents	High	Consultancy				Reported in annual report 2018/19
Tenant & Corporate Services	General Data Protection Regulations (GDPR)	High	Planned				
Tenant & Corporate Services	HRA Delivery Plan - Budget Savings	High	Deferred				Deferred to 19/20 plan due to recent legislation
Tenant & Corporate Services	IR35s - Off Payroll Working Through An Intermediary	High	Draft Report Issued				
Tenant & Corporate Services	Property Maintenance	Medium	Planned				
Tenant & Corporate Services	Risk Management (Contracts)	High	Audit in Progress				
Tenant & Corporate Services	Settlements	High	Final Report Issued	Satisfactory	Satisfactory	09/10/2018	
Finance	Treasury Management	High	Final Report Issued	Satisfactory	Satisfactory	20/11/2018	
Council Wide	Car Parking Review	High	Final Report Issued	Not Applicable	Not Applicable	29/01/2019	New activity
Tenant & Corporate Services	ICT Action Plan	High	Planned				

Car Parking Review

16th January 2019

Sara Causon
Principal Auditor



Distribution

Issue to:
Chief Executive

Copies to:
Director of Customer Services
Head of Community Services
Audit and Standard Committee Members

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Important

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Executive Summary

Introduction

The Road Traffic Regulations Act 1984 states that a local authority may provide off-street parking places for the purposes of relieving or preventing congestion of traffic, and can make provision as to the conditions for the use of such parking places, including applicable charges.

The primary purpose of imposing and setting the level of parking charges must be to secure the expeditious, convenient and safe movement of vehicles and other traffic in the locality concerned, having regard to the need to secure access to premises, the effect on the amenity of the locality, the national air quality strategy and the need to secure the passage of public service vehicles. The cost of providing parking facilities may be an appropriate secondary consideration in the setting of parking charges.

The Council currently operates thirty-seven car parks; nine of these located within Stroud, Painswick and Stonehouse charge a fee, whilst the remainder have limited waiting times, but are free to use, albeit there is still a cost of providing these car parks. All are covered by enforcement and require ongoing maintenance.

During 2018 the Council reviewed the case for introducing charges in Cainscross, Dursley, Minchinhampton, Nailsworth, Stratford Park (Stroud) and Wotton-under Edge.

Audit Scope
The then Acting Head of Paid Service commissioned Internal Audit on 15th November 2018 to conduct an investigation into the procurement process in respect of the appointment of the consultant in connection with the Car Parking Review and also the nine points of concern that have been raised from a member of the public.

Key Findings

Procurement
The commissioning of the consultant to investigate the appropriateness of charging in a number of car parks within the district was approved under paragraph 15 (a) as an exemption from compliance with the Council’s Contract and Procurement Procedure Rules (CPPR), this being applied under paragraph18 (a i) the supplies or services to be provided relate to goods, services and materials which are proprietary articles.

It is noted however that when the consultant was commissioned to undertake the previous work upon which the exemption is based, the Council’s CPPR was not strictly adhered to. Only two, rather than three suppliers were approached, and there is no written record to evidence that officers attempted to demonstrate that value for money was sought, by comparing prices from different suppliers or contractors.

Whilst the market may not have been fully tested the appointed consultant claims to be a global professional services firm of designers, engineers and planners with an extensive range of technical expertise with a focus on the built environment and as a firm have delivered a whole range of parking advice for a large number of private and public sector clients in the UK and abroad.

Officers tasked with taking the project forward advised Internal Audit that they had time pressures placed upon them to deliver the project, alongside a number of other key competing work priorities.

The Audit and Standards Committee has been monitoring the Council's performance in relation to procurement and contract management over a number of years. The Committee received a procurement update report at their meeting of 9th October 2018, where members decided to highlight its general concerns about officers on occasion, not following the full procedure when procuring services (including setting out a clear specification and fully advertising the proposed contract). The recommendation that was subsequently put to full Council for their endorsement on 18th October 2018 is as follows:

The Corporate Team is reminded of the importance, without exception, of ensuring:

- Forward planning for any procurement, whether a completely new service or a renewal (as opposed to an extension) of contract;
- All procurements undertaken are recorded in writing and documents are retained in line with the Council's documentation retention policy; and
- All applications for exemptions (granted or otherwise) to the Council's Procurement and Procedure Rules are reported to the Audit and Standards Committee as part of the regular procurement updates.

Internal Audit, during 2017/18-2018/19 has also undertaken a review of procurement activity, the findings emanating from the review was reported to Audit and Standards Committee on 9th October, 2018. The review resulted in four medium priority recommendations all of which have been accepted by management.

In light of the above, Internal Audit does not propose to make any further recommendations.

1. **That SDC falsely claimed the consultant's report was commissioned to look into the 'appropriateness of parking' when, in fact, the official letter shows that the consultant agreed to find opportunities for imposing parking – and some £9k of public money was spent on this exercise.**

   Internal Audit reviewed the Stroud District Parking Review Report (May 2018), the signed consultant's instruction and budget setting documentation. It is evident that the consultant's report includes the reference 'appropriateness of parking' and the consultant's instruction includes 'basis for any changes in charging 'and 'opportunities for the introduction of payments'.

   It is acknowledged therefore that the references within the consultant's instruction could be interpreted as the complainant has stated however it is important to note that for there to be any change to charges, the Council is required to (and in the current case, did expect to) follow a required procedure that is set down in law.

   In addition, as part of the Council's budget setting process the pro-forma completed by the Head of Community Services makes reference to ' introducing any new charge on the basis that it is appropriate and proportionate'.

   In light of the above, Internal Audit concludes that there is sufficient evidence to support that the Council commissioned the consultant to look into the appropriateness of parking.

2. **That there was no written brief from SDC - it was all done verbally (Why? And how can this process be so lacking in transparency?)**

There was no formal written specification prior to the scoping meeting that was held with the consultant on 9th November 2017. Following the meeting the specification was formalised in writing (consultant's instruction), and was subsequently duly signed by both parties. From discussions held with officers involved in the procurement it is evident that they acknowledge, in hindsight, that a written specification could have been in place prior to engagement.

In light of the above, Internal Audit concludes that there is an instruction letter / brief.

3. That industry standards – publicly and prominently cited by SDC and the consultant as being used to do the vehicle-counts at the heart of the report - never in fact existed.

The consultant provided the Council with a written document dated 30th November 2017 detailing the methodology for conducting car park surveys. It had been produced with the understanding that the Council would be providing enumerators to conduct the surveys manually.

Section four of the document details the recommended methodology to be applied to provide the most accurate parking information with the most efficient use of resources, this being a 15-minute parking beat survey.

Internal Audit contacted the consultant in order to establish the source upon which the Parking Survey Methodology was based. An Associate confirmed that the reference to industry standards refers to a methodology for parking surveys typically applied in terms of utilization / occupancy recording and is widely used.

Internal Audit concludes, based on the review of the above information that the reference to industry standards as referred to within the Stroud District Parking Review Report (May 2018) relates to the Parking Survey Methodology document, dated 30th November 2017.

4. That the surveys done by neighbourhood wardens were unaudited (they were sent the template by email); largely unnamed; done to different methodology; and done to highly unlikely time-frames (one person was counting up to 300 cars every 15 minutes over several hours) – as such, they are invalidated.

Internal Audit reviewed the completed surveys and compared these to the Parking Survey Methodology, dated 30th November 2017 that was provided by the consultant. The methodology for conducting car park surveys had been produced with the understanding that the Council would be providing enumerators to conduct the surveys manually, and is based on the knowledge of the car parks to be surveyed within the following five locations Nailsworth, Dursley, Minchinhampton, Wotton-under Edge, and Cainscross.

Internal Audit concludes, based on the information reviewed that the surveys were not undertaken in strict accordance to the Parking Survey Methodology, dated 30th November 2017. The main deviations being:

- That all of the car parks were not surveyed on the same weekday to enable a direct comparison as suggested however, all car parks were surveyed on the same day where multiple car parks exist in the same location i.e. Nailsworth, Dursley, and Wotton-under-Edge;
- The time period for the Saturday survey was five hours less than that of the weekday surveys, however the Community Services Manager has advised Internal Audit that the deviation to the survey periods was largely due to the available resource and was discussed and agreed with the consultant as being acceptable; and

- The survey data does not evidence / include intimal counts although within the methodology, reference is made to this being less important in a beat survey, distinctive vehicles to measure length of stay, a verification count at enumerator cross over point, or demonstrate the agreed path taken to survey the car park to ensure consistency and accuracy.

Should any similar surveys be undertaken in the future, management will need to ensure that the template to be used is adequate to capture the respective data as prescribed within any agreed methodology.

5. SDC claimed to me the wardens were also, at the same time, performing their normal duties (impossible); in fact, an FOI email to them tells them NOT to perform normal duties or multi-task - just to concentrate on surveys.

The Director of Customer Services had sent an email to the complainant dated 27th July 2018 in response to a question which confirms the reference, ‘The Neighourhood Wardens and other SDC staff undertook the car park survey work as part of their normal working day at the same time as continuing to respond to phone calls relating to their day job.’

A response from the Council in respect of complaint 848 includes ‘Due to the expanse of car parks surveyed, some of the staff were stationed in one car park only. This allowed them to take phone calls whilst undertaking this duty considering they were surveying every 15 minutes’.

In response to FOI 4781, an email dated 23rd January 2018 from the Community Services Manager to enumerators does state ‘Tempting as is may be, please don’t multi task and do enforcement whilst undertaking the surveys’.

This issue was discussed with the Community Services Manager who advised Internal Audit that:

- Due to the locations of the car parks some enumerators were required to walk between car parks whilst others were sited within one small car park. It was therefore practical and an efficient use of resource for some enumerators, sited within a single small car park to be able to take phone calls relating to their day job; and
- The comment within the email dated 23rd January 2018 to enumerators had been included to reiterate the decision made at a previous team meeting where it had been discussed as to whether it would be appropriate to conduct enforcement, which is a different task to that of undertaking a phone call.

Internal Audit concludes, based on the review of the above information that enumerators were appointed to different locations, some of which, where deemed practical, were able to undertake other simple work related tasks.

6. That the consultant should never have been paid - the report is unclear, inconsistent, lacks evidence for its conclusions (for example, a main reason for introducing parking charges is 'churn'; yet churn is not measured in the report).

See combined response under 8 below.

7. The report claims that the counts were done on quiet days. This is false: the Saturday Nailsworth count was done on a day when Forest Green Rovers were playing at home, with more than 2,000 spectators.

The surveys were undertaken during the month of January, which is a month that falls within term time, is post Christmas and were conducted on a neutral day, as termed within the Car Parking Methodology, with the Saturday survey being conducted within the same week of the middle week of the three week survey period.

With reference to the point raised concerning the FGR (Forest Green Rovers) match, the Community Services Manager advised Internal Audit that he was not aware that FGR had a home match fixture.

Internal Audit viewed the Forest Green Rovers 2017/18 Results table, (from their web page). In summary:

- 50 matches were played during the season, 25 of these were played at home, and 25 were away;
- During the football season August to May, on six occasions home matches took place either on a Monday, Tuesday, or Friday, however the majority of matches (19) took place on a Saturday. It is evident that on Saturday 20th January, there was a home game, kick-off time for the match was 3.00 pm; and
- During the 10 month season, Saturday matches took place three times each month during November and December, twice a month in September, October, January-March, and for the remaining three months August, April and May, one match a month.

In light of the frequency of home matches held on a Saturday (minimum once a month, maximum three times a month) during the ten month football season, it could be considered by some for this to be a 'typical' event, and whilst it had not been identified that such an event was due to take place when planning the survey dates, inclusion of survey data when such an event occurs, has enabled insight as to patronage within the Nailsworth car parks on such days.

Internal Audit concludes, based on the review of the above information that:

- Surveys were conducted in line with the 'neutral' criteria, as stated within the consultant's Car Parking Methodology; and
- The Saturday survey was conducted within the same week of the middle week of the three week survey period.

8. There are two invoices submitted by the consultant for the same work; there was no explanation or email about it (which I requested under FOI); yet SDC finance department somehow knew which one to pay and why. How is this possible or accountable?

The consultant's instruction dated 27th November 2017 is signed by both parties and constitutes a written contract, i.e. the offer and acceptance of commissioned services in exchange for a lump sum fee of £9,950 + VAT. The tasks and deliverables specific to the consultant's work being detailed within the brief under six bullet points.

Section D, paragraph D3.8 of the Council's Financial Regulations makes provision for goods and services to be checked on receipt to verify that they are in accordance with the order. In addition, paragraph D3.9 states that payment shall not be made unless a proper VAT invoice has been received, checked, coded and certified for payment, in accordance with the procedures specified by the Section 151 Officer. Invoices shall not be amended; if any invoice is found to be incorrect, a replacement shall be requested from the originator.

The consultant invoiced the Council for the agreed lump sum plus VAT (invoice number 1016929). Upon receipt of the invoice, the Principal Community Services Officer advised Internal Audit that he had contacted the consultant to negotiate the original lump sum fee as it was deemed that the sixth bullet point was not fulfilled as the requirement for this element of the brief was no longer needed. The consultant agreed to reduce the fee and the invoice was put on hold, pending receipt of a credit note (10001719) and amended invoice (1020488), reflecting the agreed reduced fee.

Internal Audit was able to verify that the consultant's report was subject to document verification checks i.e. version control, preparer, checker and authoriser. This demonstrates the quality assurance applied to the report prior to release.

Internal Audit concludes, based on the review of the above information that:

- The consultant's report evidences that a quality assurance process was applied prior to release of the report; and
- Verification checks, as required under D3.8 upon receipt of an invoice was undertaken and subsequent action taken in line with paragraph D3.9 of the Council's Financial Regulations to request an amended invoice to reflect the work undertaken.

9. That when I asked for relevant info from FOI, very little of this appeared. It was only produced when I came up with evidence to prove my FOI request had not been fulfilled.

The Freedom of Information Code of Practice (FOI COP) dated 4th July 2018 provides guidance for public authorities on best practice in meeting their responsibilities under Part I of the Act. It sets the standard for all public authorities when considering how to respond to Freedom of Information requests. In relation to point 9, section four, time limits for responding and section five, internal reviews are relevant.

Internal Audit accessed the Council's Freedom of Information (FOI) Administration System to view the number of FOI requests that have been made by the applicant in relation to this subject. It is evident that during the period 21st June /2018 – 2nd November 2018 four requests have been lodged (reference numbers 4669, 4718, 4781, and 4908). The first two requests relate to point 9, references 4669 and 4718.

The initial request (4669) dated 21st June 2018 asked to see all correspondence between the District Council and the consultant regarding the Stroud District Parking Review (May 2018). The FOI request was acknowledged on 22nd June 2018 (next day) and a formal response was subsequently sent on 20th July 2018 (within 20 working days) releasing two documents, the signed consultant's instruction and emails between the then Principal Community and Facilities Officer and the consultant during the period 27th October 2017 – 30th October 2017.

On 24th July 2018 the complainant responded to the Council requesting for a review of the information given under the FOI. This request was passed to the Head of Legal Services, (thus the internal review was undertaken by an individual other than the person who took the original decision) and resulted in some additional information being released on 9th August 2018 (also in response to FOI 4718) and an official response to the internal review being provided to the complainant on 24th August 2018.

Internal Audit concludes that the Council has conformed to the respective requirements of the FOI COP in processing the respective FOI requests.

Annual Report on Grants and Returns 2017/18

Stroud District Council

—

14 January 2019

Summary for Audit & Standards Committee

Introduction & background

This report summarises the results of work we have carried out on the Authority's 2017/18 grant claims and returns.

This includes the work we have completed under the Public Sector Audit Appointment certification arrangements, as well as the work we have completed on other grants/returns under separate engagement terms. The work completed in 2017/18 is:

- Under the Public Sector Audit Appointments arrangements we certified one claim, the Authority's 2017/18 Housing Benefit Subsidy claim. This had a value of £22.7m. This is the final year in where the Housing Benefit Subsidy claim will be covered by the Public Sector Audit Appointments arrangements. In future years the Council will directly engage a provide to deliver the National Audit Office's Housing Benefits Assurance Process.
- Under separate engagements we issued reports on one return:
  - Pooling of Housing Capital Receipts – value of £2.6m

Certification & assurance results

Our certification work on Housing Subsidy Benefit claim included:

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

Following the completion of our work, the claim was unqualified.

Our work on the Pooling of Housing Capital Receipts engagement was to carry out agreed upon procedures set by the Ministry of Housing, Communities and Local Government. We identified no exceptions and reported on 11 January 2019.

Summary for Audit & Standards Committee (cont.)

Recommendations	We have made one low priority recommendation to the Authority from our work this year. In addition the recommendation raised as a result of the previous year's work was closed satisfactorily this year. See further details on pages 3-4.
Fees	Our fee for certifying the Authority's 2017/18 Housing Benefit Subsidy grant was £9,900, which is the same as the indicative fee set by PSAA. Our fees for the other grant and return engagements were subject to agreement directly with the Authority and were £3,000. See further details on page 7.

Summary of reporting outcomes

Overall, we carried out work on two grants and returns:

— 1 was unqualified with no amendment;

— 1 was unqualified but required a minor amendment to the final figures.

Detailed comments are provided on page 4.

Detailed below is a summary of the reporting outcomes from our work on the Authority's 2017/18 grants and returns, showing where either audit amendments were made as a result of our work or where we had to qualify our audit certificate or assurance report.

A qualification means that issues were identified concerning the Authority's compliance with a scheme's requirements that could not be resolved through adjustment. In these circumstances, it is likely that the relevant grant paying body will require further information from the Authority to satisfy itself that the full amounts of grant claimed are appropriate.

	Comments on page 4	Qualified	Significant Adjustment	Minor Adjustment	Unqualified	Factual Findings Report
Public Sector Audit Appointments Regime:						
— Housing Benefit Subsidy	1					
Other grant/return engagements:						
— Pooling of Housing Capital Receipts	-					
Total		-	-	1	2	1

Summary of certification outcomes

We have summarised below the key findings arising from our work in relation to each claim or return in relation to which we have provided certification services.

Ref	Summary of observations	Amendment
1	**Housing Benefit Subsidy Clam** — One amendment was required to allocate board and lodging where the LA is the landlord correctly across cells 12 and 13 (above and below the one bedroom self-contained BRMA rate) — This amendment is a reoccurrence of an issue that was identified in previous audits although it has not been an issue in the last two years.	**£10,556**
2	— **Pooling of Housing Capital Receipts**	**£nil**

Recommendations

We have raised one recommendations as a result of our certification work over grants and returns in 2017/18.

We have given each recommendation a risk rating and agreed what action management will need to take.

Priority Rating for Recommendations

1	**Priority One:** Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk. Recommendations Raised: nil	2	**Priority Two:** Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system. Recommendations Raised: nil	3	**Priority Three:** Issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them. Recommendations Raised: one

No.	Risk	Issue & Recommendation	Management Response
3	1	One amendment was required to allocate board and lodging where the LA is the landlord correctly across cells 12 and 13 (above and below the one bedroom self-contained BRMA rate). This amendment is a reoccurrence of an issue that was identified in previous audits although it has not been an issue in the last two years. ***Risk*** Failure to identify this error results in additional time and cost in making the amendment at the time of the certification work. ***Recommendation*** Review procedures for the preparation of the subsidy form to build in a review of these cells in respect of this error.	This was an issue we identified, which arose with the Housing Advice Team looking much further afield for temporary accommodation. The postcodes were out of area AND properties new to placement Having identified this, we have built the solution (an update in BRMA fields) into doing the assessment of temps accommodation. We have also built this into the subsidy checking as a double check.

Prior year recommendations

We made one recommendation in our 2016/17 Certification of Grants and Returns Annual Report. Where recommendations have not yet been implemented fully we have detailed their current status below.

Number of recommendations that were	
Included in the original report	1
Implemented in year or superseded	1
Outstanding at the time of our interim audit	-

No.	Risk	Issue & Recommendation	Management Response	Status as at 13 January 2019
1	2	We are currently unable to report on the DCLG Pooling of Housing Capital Receipts return due to technical issues which are preventing the Authority from completing the return correctly in DCLG's Logasnet system ***Risk*** Without resolution of this issue, we will be unable to complete this reporting. ***Recommendation*** Liaise with DCLG to enable completion of an accurate report as soon as possible to enable timely reporting. Logasnet is due to be decommissioned in Spring 2018 and so the issue must be resolved prior to decommissioning (also allowing sufficient time for test once the system return is populated).	We have liaised with DCLG and have successfully completed the Logasnet return on 4 January 2018. This should now allow KPMG to conclude their testing in early 2018. ***Responsible Officer*** Lucy Clothier ***Implementation Deadline*** January 2018	Closed The return was reported on in January 2018.

Fees

Our fees for the Housing Benefit Subsidy claim are set by Public Sector Audit Appointments.

Our fees for other assurance engagements on grants and returns are agreed directly with the Authority.

The overall fees we charged for carrying out all our work on grants and returns in 2017/18 was £12,900.

Public Sector Audit Appointments certification arrangements

Public Sector Audit Appointments set an indicative fee for our work on the Authority's Housing Benefit Subsidy claim in 2017/18 of £9,900. Our actual fee was the same as the indicative fee, and this compares to the 2016/17 fee for this claim of £7,590.

Grants subject to other engagements

The fees for our work on other grants and returns are agreed directly with the Authority. Our fees for 2017/18 were the same as those in 2016/17.

Breakdown of fees for grants and returns work

Grant / Return	2017-18 Fee £	2016-17 Fee £
Public Sector Audit Appointments Regime:		
— Housing Benefit Subsidy Claim	9,900	7,590
Other grant/return engagements:		
— Pooling of Housing Capital Receipts	3,000	3,000
— HCA Compliance Reports	-	2,000
Total certification fees for the Authority	**12,900**	**12,590**

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

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

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

CREATE: CRT086281A

STROUD DISTRICT COUNCIL **AGENDA ITEM NO**

AUDIT AND STANDARDS COMMITTEE

29 JANUARY 2019 **9**

Report Title	**ANNUAL GOVERNANCE STATEMENT 2017/18 IMPROVEMENT PLAN – PROGRESS REPORT**
Purpose of Report	To provide assurance to the Committee that the improvement areas and associated actions identified as part of the annual review of governance arrangements operating within the Council have been/are being addressed.
Decision(s)	The Committee **RESOLVES** that it has reviewed and considered the actions taken to address the governance improvement areas identified.
Consultation and Feedback	Corporate Team.
Financial Implications and Risk Assessment	There are no direct financial implications arising from this report. Andrew Cummings, Head of Finance & Section 151 Officer Tel: 01453 754115 Email: andrew.cummings@stroud.gov.uk **Risk Assessment:** Failure to deliver an effective corporate governance framework prevents the Council in directing and controlling its resources effectively and efficiently, to enable the Council's objectives to be met.
Legal Implications	There are no direct legal implications to report and the committee needs to be satisfied as to progress. Nicola Swan**,** Interim Head of Legal Services & Monitoring Officer Tel: 01453 754369 Email: nicola.swan@stroud.gov.uk
Report Author	Theresa Mortimer, Head of Audit Risk Assurance Tel: 01453 754111 Email: theresa.mortimer@stroud.gov.uk
Performance Management Follow Up	The Council's Annual Governance Statement 2018/19 is due to be presented to Audit and Standards Committee in July 2019, and will include a final progress report against the Annual Governance Statement 2016/17 Improvement Plan.

Background Papers/ Appendices	**Background papers:** Annual Governance Statement 2017/18 **Appendix A:** Annual Governance Statement 2017/18 Improvement Plan – Progress Report

1.0 Background

1.1 Governance comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.

1.2 The Council is required by the Accounts and Audit Regulations 2015 to publish an Annual Governance Statement, in accordance with '*proper practices'* in order to report publicly on the extent to which we comply with our own Local Code of Corporate Governance. This approach includes how the Council has monitored the effectiveness of arrangements in year and on any planned changes to governance arrangements in the coming year. Through the Council's Constitution, the Audit and Standards Committee has responsibility for review and approval of the Statement.

1.3 Members approved the Council's Annual Governance Statement 2017/18 (including the Annual Governance Statement 2017/18 Improvement Plan) at the 26th July 2018 Audit and Standards Committee meeting.

1.4 This report is the first update presented to Members on the Council's progress (detailed in **Appendix A**) against agreed actions from the Annual Governance Statement 2017/18 Improvement Plan.

Appendix A

Progress on 2017/2018 Stroud District Council's Governance Improvement Actions

AGS Review Reference	Governance matters identified / actions taken	Target Date and Lead Officer	Position as at December 2018
Chief Financial Officer Assurance Statement	**Future Financial Sustainability** The 2018/19 Medium Term Financial Plan identified core deficit of £1.5m by 2021/22. **Actions:** Work is currently underway with senior officers and key members of the administration to produce a balanced savings plan that addresses the funding shortfall. The 2017/18 Medium Term Financial Plan (MTFP) identified a core deficit of £3.4m by 2020/21. At the time the MTFP was published in February 2017, there was not a balanced and proportionate savings plan in place to mitigate the reliance on reserves and balances. During 2017/18, a Savings Plan was produced that reduced the reliance on reserves and balances significantly. The 2018/19 MTFP (as published in February 2018), showed	Ongoing Chief Financial Officer (S151)	Financial sustainability is continuously reviewed by the S151 Officer and Corporate Team. The Budget Strategy approved in October 2018 set out the Council's financial approach in the medium term. This included a commitment to close the gap between expenditure and predicted resources. The Medium Term Financial plan, subject to approval in January 2019, shows the medium term forecast and an expectation of a £1.4m funding gap in 2022/23.

AGS Review Reference	Governance matters identified / actions taken	Target Date and Lead Officer	Position as at December 2018
	that the Core Deficit had reduced to £1.222m by 2020/21, rising to £1.526m by 2021/22. The Savings Plan does include a number of assumptions and savings targets, which will need to be monitored closely in 2018/19 to ensure these, can be delivered in accordance with the plan. Further savings will be required over the MTFP to address the remaining core deficit, given the risks inherent in the MTFP around funding, the attainment of savings targets and the cost pressures facing the Council particularly around Waste Management.		Income generation will be used as the primary means to close that gap. Budget monitoring reports will be used as the primary mechanism for monitoring the progress of the Medium Term financial plan. The Council remains at risk from the Fair Funding Review to be published in 2019. The S151 Officer will ensure that members and management are fully aware of the implications of that review. During 2019 officers and members must work together to identify savings options to be implemented in the future.

AGS Review Reference	Governance matters identified / actions taken	Target Date and Lead Officer	Position as at December 2018
2017/2018 Limited Assurance Internal Audit Review (Fundamental Financial System)	**Capital Programme Management** A capital programme is a set of capital projects that a council plans to undertake within a given timetable and should be based on an approved Capital Strategy, which in turn should be linked to the council's Asset Strategy. The development of a capital programme, as per Chartered Institute of Public Finance and Accountancy (CIPFA) best practice, involves the following key activities: (1) Setting the parameters; (2) Identifying and developing project proposals; (3) Evaluating and prioritising project proposals; and (4) Finalising and approving the programme and confirming the funding. The council's medium term General Fund capital programme has planned expenditure of approximately £20m for the period 2017-18 to 2020-21.	26th July 2018 Management update Chief Financial Officer (S151) (Management Actions) 31st March 2018 Chief Internal Auditor (Follow Up Review)	A draft Capital Strategy has now been produced in accordance with the CIPFA Guidelines. This sets out the key principles of the management of capital expenditure for the authority. It also includes the requirements for selecting and managing capital schemes. The Capital Strategy has been developed in consultation with both Senior Officers and with Members. The Strategy will be subject to approval by Strategy and Resources Committee and by Council in January 2019. Once approved it can form part of the Council's financial procedures.

AGS Review Reference	Governance matters identified / actions taken	Target Date and Lead Officer	Position as at December 2018
	Due to the significance of the budget, Internal Audit undertook a review of the systems and processes relating to the General Fund capital programme, which resulted in a limited assurance opinion provided on the control environment. The outcomes of the review have been reported to Audit and Standards Committee on 10th April 2018. **Actions**: Management attendance at the Audit and Standards Committee on 26th July 2018 to provide an update as to the progress made in implementing the recommendations and an Internal Audit follow up review included as part of 2018/2019 Internal Audit Plan.		IA will undertake a follow up review once the capital strategy has been formally approved and implemented.

AGS Review Reference	Governance matters identified / actions taken	Target Date and Lead Officer	Position as at December 2018
AGS Assurance Framework	**Risk Management Framework** Following the Council's fundamental review of its Risk Management framework, a new Policy Statement and Strategy was adopted by the Audit and Standards Committee in April 2017. Guidance and training was provided to all Directors and heads of service / managers in 2017/18 and the strategic risk register updated. Relevant responsibilities are clear within the policy. Further compliance with the policy is now overseen and reviewed by the Audit and Standards Committee at each meeting as a result of which in recent months, the committee has taken a more active role in ensuring compliance with the policy, particularly within the context of management of the strategic risk register, which identifies key issues of concern for the Council which if not managed effectively will have significant adverse effects on the Council's ability to operate.	Ongoing during 2018 / 2019 This function affects all elements of the Council and as such lead officers comprise all members of Corporate Team (CT). The framework is administered by Monitoring Officer's team.	Ongoing during 2018 / 2019 CT reviews the Strategic Risk Register (on Excelsis) on a quarterly basis. Audit and Standards Committee have a standing item on their meeting agenda to raise any concerns relating to the strategic risks.

AGS Review Reference	Governance matters identified / actions taken	Target Date and Lead Officer	Position as at December 2018
	Action: Audit and Standards Committee to continue to monitor and challenge key risk controls identified by the Corporate Team and actions across the Council in line with adopted policy including discussing pertinent issues direct with Corporate Team to ensure that the principles of effective risk management are fully embedded into the Council's day to day business activities.		
Director Of Tenant and Corporate Services Review	**ICT Strategy / Infrastructure** Socitm Advisory Ltd was commissioned by the Director Of Tenant and Corporate Services to assist in reviewing Stroud District Council's ICT Service, specifically in relation to: ➢ Whether the Council's current ICT provision is suitable to meet current and future needs of the council; ➢ Advise whether the ICT service has the right management and technical skills, staff numbers and budget to meet these needs;	Action Plan implemented over a 2 / 3 year period Director: Tenant and Corporate Services, Head of Business Services Planning and Head of IT.	A T&F group was formed on 12 July 2018 with the objective of reviewing and defining the Council's future direction in terms of the best use of IT to support the delivery of efficient and effective services to citizens. A visioning session was facilitated by SOCITM in August 2018 where consensus was reached on the general requirements. The T&F group has met a number of times since formation to discuss a way

AGS Review Reference	Governance matters identified / actions taken	Target Date and Lead Officer	Position as at December 2018
	➢ Explore potential partnership working opportunities; and ➢ Investigate the seeming disconnect between the ICT service and the business. The review confirmed that SDC required significant ICT change and that this change would need to be in two steps i.e. over 2/3 years to complete foundation work and remedy major issues, and implement. Detailed recommendations were made which related to (1) Leadership and Governance, (2) Vision and Strategy, (3) Options assessment (e.g. how ICT service will be delivered) and (4) Infrastructure; Staffing; Ongoing Funding; Service Management; Business Change Capability; Business Focus; Communications; Security and Business Continuity.		forward. It has been agreed three linked strategies (Digital, Information and ICT) should be produced, which will define our future use of and investment in IT. SOCITM have been engaged to help develop these strategies which are all due to be delivered to the S & R committee meeting scheduled for April 2019. SOCITM have also been engaged to develop and deliver an internal governance framework for the management of the ICT service. This is due to be delivered by the end of January 2019. A review of our IT structure, the skills and knowledge we will require

AGS Review Reference	Governance matters identified / actions taken	Target Date and Lead Officer	Position as at December 2018
	Action: The Leader has confirmed full support from both Members and Officers requesting that a formal Task and Finish Group is set up, whose role would include determining the role of Strategy and Resources (S and R) Committee and Audit and Standards Committee in monitoring the progress made with the implementation of the recommendations. This group would be set up through May 2018 S and R Committee.		moving forward will also need to take place (as identified by the SOCITM review). This will be considered in more detail as the future direction of our use and investment in IT becomes clearer. It may not need to wait until April 2019.
Director's Composite Assurance Statement	**ICT Back Up and Disaster Recovery Arrangements** ICT back up and disaster recovery arrangements are where the council needs to be more reassured that a critical service can be restored. A programme of work has been identified by the Socitm Advisory Ltd review requiring managers, services and ICT to define the prioritisation and realistic targets of service delivery in a Business Continuity Management / Disaster Recovery emergency.	September 2019 Lead Officers: Corporate Team (to initially define recovery times for their critical services)	A report with options was prepared and presented to the corporate team. Authorisation was provided by the corporate team for the Head of ICT of ICT to implement the recommended option, which included a 4-stage plan. Work has started on the first stage which is the building of a second offsite datacentre to improve ICT backup and disaster recovery arrangements.

AGS Review Reference	Governance matters identified / actions taken	Target Date and Lead Officer	Position as at December 2018
	Action: This substantial programme of work will be led by Corporate Team as part of the wider governance changes required, which have been identified in recent internal audit reviews as well as the SOCITM external review.	Action Owner: Head of ICT (based on the above, ICT to review design options and costs and report back to Corporate Team, prior to agreeing final design options and subsequent implementation).	A location has been identified, a specification produced and costs are being obtained from suppliers. Construction works are likely to be completed by the end of April, with datacentre services becoming available by the end of August 2019 which will be the completion of stage 1.

AGS Review Reference	Governance matters identified / actions taken	Target Date and Lead Officer	Position as at December 2018
Brought forward from 2016/2017	**Multi Service Contract** The multi services contract provides for the provision of waste and recycling, street cleaning, grounds maintenance, fleet management and maintenance services. There has been a significant increase in costs of the new waste and recycling service which has resulted in additional resources allocated in 2018/2019 Medium Term Financial Plan. **Actions:** A full service management review was undertaken in early 2017/2018 which included detailed resource analysis. In addition, Internal Audit provided support and made a number of recommendations to the assist the development of a control framework to effectively manage and monitor the contract.	9th October 2018 Audit and Standards Committee Director of Customer Services (Management Actions)	The significant increase in cost has been identified due to hire of vehicle costs, agency costs and the bottom line budget being incorrect. This has been analysed and with work undertaken between SDC and Ubico. We have set a challenging but achievable budget for 2019/20. This budget will now form part of the Council's budget setting process through the committees, a significant improvement on current years where a contract fee was agreed after that process.

AGS Review Reference	Governance matters identified / actions taken	Target Date and Lead Officer	Position as at December 2018
	Internal Audit will undertake a follow up review during 2018/2019 to establish progress to date with the agreed recommendations and report these outcomes to the Audit and Standards Committee.	Chief Internal Auditor (Follow Up Review finalised and reported to A & S Committee 9th October 2018)	As agreed at the A & S committee on the 20th November the Head of Community Services and the Community Services Manager will report back on the agreed recommendations at A & S committee in January 2019. Currently as of today 7/12/2018 these recommendations are progressing well, with a number that has been concluded, with the remaining ones being signed off by the Environmental Services Partnership Board (ESPB) on January 10th 2019.

AGS Review Reference	Governance matters identified / actions taken	Target Date and Lead Officer	Position as at December 2018
Brought forward from 2016/2017	**Procurement Action Plan** The Council fully appreciates that an appropriate corporate framework for procurement and contract management is key to effectively managing risks of legal challenge and not securing best value goods, works and services. In 2017/18 the final elements of the corporate action plan to address weaknesses in the corporate framework identified in 2014/15 were completed i.e. a comprehensive programme of corporate procurement training was delivered to improve staff procurement competency levels. As part of the corporate oversight of procurement, the Principal Procurement Officer with the support of the Legal team is continuing to advise and oversee the application of the framework. As a consequence issues have been brought to the attention of relevant heads of service and directors to improve their teams' forward planning of procurement activities.	Ongoing Principal Procurement Officer and Monitoring Officer	Ongoing Regular update reports are taken to CT on a quarterly basis to include any issues relating to the application of the procurement framework; forthcoming contract renewals with updates from contract owners, and progress on spend consolidation projects. Reports and briefing papers are also provided to A&S Committee to highlight any improvements to; or concerns; relating to the application of the procurement governance framework.

AGS Review Reference	Governance matters identified / actions taken	Target Date and Lead Officer	Position as at December 2018
	Action: To continue to develop officer procurement competency and forward planning, procurement and associated governance issues (e.g. risk management) are included within the staff induction day; further regular updates and reports to committee and Corporate Team are provided on procurement activities including consolidation projects.		Details of all exemptions to Contract Procurement Procedure Rules (whether agreed or not) to be provided to A&S Committee on a regular basis as part of the procurement updates. Forthcoming update to the Procurement and Contract Management Strategy action plans to reflect the requirements of the National Procurement Strategy 2018 and recent motions agreed by Council.

AGS Review Reference	Governance matters identified / actions taken	Target Date and Lead Officer	Position as at December 2018
Revised CIPFA Audit Committees: Practical Guidance	**CIPFA Audit Committees: Practical Guidance for Local Authorities and Police (2018 Edition)** Audit Committees are a key component of corporate governance. They provide a high-level focus on assurance and the Council's arrangements for governance, managing risk, maintaining an effective control environment, and reporting on financial and non-financial performance. This revised edition updates the core functions of the audit committee in relation to governance, risk management, internal control and audit. This includes new legislation affecting audit committees in combined authorities and updates to regulations and statutory guidance. The updates to the Public Sector Internal Audit Standards and Delivering Good Governance in Local Government: Framework and associated guidance are also considered for their impact on the work of the audit committee.	31st March 2019 Chief Internal Auditor	The CIPFA guidance was formally published on 22nd May 2018. The evaluation of the Council's Audit and Governance Committee against the revised guidance is currently in progress and recommendations for improvement will be made where necessary. The self assessment will be finalised in full consultation with all key stakeholders. The Audit and Governance Committee will formally present the key outcomes of the evaluation in their Annual Report to Council, initially to the Committee on 7th May 2019 and to full Council 16th May 2019.

AGS Review Reference	Governance matters identified / actions taken	Target Date and Lead Officer	Position as at December 2018
	There are significant changes to the core functions of the committee in relation to external audit, reflecting the new arrangements for auditor appointment and new guidance on ethical standards for auditors issued by the Financial Reporting Council. Both developments require greater attention to be given to this important area. The audit committee role in relation to counter-fraud has also been updated to reflect the Code of Practice on Managing the Risk of Fraud and Corruption. The guidance continues to include a strong focus on the factors that support improvement. These include the knowledge and skills that audit committee members require and a focus on where the audit committee adds value.		

AGS Review Reference	Governance matters identified / actions taken	Target Date and Lead Officer	Position as at December 2018
	Action: The Chief Internal Auditor will review the guidance (when published) and will provide support to the Audit and Standards Committee to enable the evaluation of the Council's Committee against the revised guidance, making recommendations for improvement where necessary.		

STROUD DISTRICT COUNCIL

AUDIT AND STANDARDS COMMITTEE

29 JANUARY 2019

AGENDA ITEM NO

10

Report Title	**3RD QUARTER TREASURY MANAGEMENT ACTIVITY REPORT 2018/19**
Purpose of Report	To provide an update on treasury management activity as at 31/12/2018.
Decision(s)	**The Audit and Standards Committee APPROVES the treasury management activity third quarter report for 2018/2019.**
Consultation and Feedback	Link Asset Services Limited
Financial Implications & Risk Assessment	This report outlines treasury management performance up to Q3 2018/19 and as a result there are no direct financial implications. There was one minor breach of the prudential indicators (paragraph 9) but this has not exposed the Council to any level of unsafe risk. Andrew Cummings Head of Finance and Section 151 Officer Email: andrew.cummings@stroud.gov.uk
Legal Implications	The report indicates how the Council is meeting its statutory obligations in operating its investment strategy and Prudential limits; no legal concerns arise. Nicola Swan Interim Head of Legal & Monitoring Officer Tel: 01453 754369 Email: nicola.swan@stroud.gov.uk
Report Author	Graham Bailey, Principal Accountant Tel: 01453 754133 Email: graham.bailey@stroud.gov.uk
Options	None
Performance Management Follow Up	A full 2018/19 annual report.
Appendices	A – Prudential Indicators as at 31 December 2018 B – Explanation of prudential indicators

Background

1. Treasury management is defined as: 'The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'

2. This report is presented to the Audit and Standards Committee to provide an overview of the investment activity and performance for the third quarter of the financial year, and to report on prudential indicators and compliance with treasury limits. A quarterly report is regarded as good practice, but is not essential under the Code of Practice for Treasury Management (the Code).

Discussion

3. The Chartered Institute of Public Finance and Accountancy (CIPFA) issued the revised Code in November 2009, and it was adopted by this Council on 21 January 2010. This third quarter report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:

    - A review of the Treasury Management Strategy Statement (TMSS) and Investment Strategy
    - A review of the Council's investment portfolio for 2018/19
    - A review of the Council's borrowing strategy for 2018/19
    - A review of compliance with Treasury and Prudential Limits for 2018/19
    - Other Treasury issues

Treasury Management Strategy Statement and Investment Strategy update

4. The TMSS for 2018/19 was approved by Council on 22 February 2018. The Council's Investment Strategy, which is incorporated in the TMSS, outlines the Council's investment priorities as follows:

    - Security of Capital
    - Liquidity
    - Yield

5. The Council will also aim to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current low interest rate environment the Council is seeking to invest for longer periods of up to a year, with highly credit rated financial institutions, using Link Asset Services' suggested creditworthiness approach, which includes a sovereign credit rating and Credit Default Swap (CDS) overlay.

6. A breakdown of the Council's investment portfolio as at 31 December and 30 September 2018 is shown in Table 2 of this report. Investments and borrowing during the year have been in line with the Strategy, with the exception of investments with the Council's own bank NatWest over the Christmas period as noted in paragraph 9.

Investment Portfolio 2018/19

7. In accordance with the Code, it is the Council's priority to ensure security and liquidity of investments, and once satisfied with security and liquidity, to obtain a good level of return. The investment portfolio yield for the first three quarters is shown in the table below:

TABLE 1: Average Interest Rate Compared With Benchmark Rates

Period	Investment Interest Earned	Average Net Investment £'000	Average Interest Rate	Benchmark 7 day LIBID	Benchmark 3 month LIBID
01/04/18 - 30/06/18	£56,547	£36,350	0.63%	0.36%	0.55%
01/07/18 - 30/09/18	£76,772	£44,159	0.73%	0.51%	0.66%
01/10/18 - 31/12/18	£107,062	£47,458	0.85%	0.58%	0.74%
YTD Total	**£240,381**	**£42,678**	**0.75%**	**0.49%**	**0.65%**

8. Table 2 below shows the investments and borrowing position at the end of December 2018.

9. The approved limits as set out in the Treasury Management Strategy report to Council 22 February 2018 within the Annual Investment Strategy have been complied with during the first three quarters of 2018/19, apart from exceeding the £8m limit with the NatWest banking group over the period 27 December 2018 to 2 January 2019 when deposits in our own bank were a maximum of £1.4m over the designated limit. The investment level was brought within limit on 2 January.

10. Funds were available for investment on a temporary basis. The level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme. The authority holds £8m core cash balances for investment purposes (i.e. funds that potentially could be invested for more than one year).

TABLE 2: Investments & Borrowing

	Sep 2018 £'000		Dec 2018 £'000	
Federated Prime Rate	3,984		3,929	
Deutsche	3,750		1	
Goldman Sachs	1,743		3,437	
Aberdeen (previously Standard Life)	2		609	
Money Market Funds Total		**9,479**		**7,976**
Bank of Scotland	1,500		1,500	
Lloyds	6,458		6,468	
Lloyds Banking Group Total		**7,958**		**7,968**
NatWest	6,001		9,421	
Royal Bank of Scotland	7		7	
RBS Banking Group Total		**6,008**		**9,428**
Goldman Sachs	4,000		2,000	
Standard Chartered	2,000		5,000	
Santander	7,066		7,970	
Credit Industriel et Commercial	0		2,000	
Barclays Bank Plc	4,518		7,031	
Toronto Dominion	0		2,000	
Svenska Handelsbanken	2,001		2	
Other Banks Total		**19,585**		**26,003**
Coventry Building Society	4,000	**4,000**	2,000	**2,000**
TOTAL INVESTMENTS		**£47,030**		**£53,375**
Local Authority		2,000		2,000
PWLB		103,717		103,717
TOTAL BORROWING		**£105,717**		**£105,717**

Borrowing

11. The Council's Capital Financing Requirements (CFR) estimate for 2018/19 is £112.180m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (External Borrowing) or from internal balances on a temporary basis (Internal Borrowing). The Council has external borrowing of £105.717m as at 31 December 2018.

Compliance with Treasury and Prudential Limits

12. It is a statutory duty for the Council to determine and keep under review the “Affordable Borrowing Limits”. Council’s approved Treasury and Prudential Indicators are outlined in the approved TMSS.

13. During the period to 31 December 2018 the Council has operated within the treasury limits and Prudential Indicators set out in the Council’s TMSS and in compliance with the Council's Treasury Management Practices, with the exception of the breach of the NatWest group limit as detailed at paragraph 9. The Prudential and Treasury Indicators are shown in Appendix A.

Members Information Evening

14. A Treasury Management Members Information Evening was held in the Council Chamber on 4th December 2018. Link Asset Services provided some training for members focused on investment options, and there was a discussion of the Council’s draft Capital Strategy.

Prudential Indicators as at December 2018

Prudential Indicator	2018/19 Indicator £'000	Actual as at 31 Dec 2018 £'000
Capital Financing Requirement (CFR)	112,180	111,484
Gross Borrowing	107,717	105,717
Authorised Limit for external debt	130,000	105,717
Operational Boundary for external debt	122,000	105,717
Limit of fixed interest rates based on net debt	100%	100%
Limit of variable interest rates based on net debt	100%	0%
Principal sums invested > 365 days	7,000	0
Maturity structure of borrowing limits		
Under 12 months	100%	2%
12 months to 2 years	100%	0%
2 years to 5 years	100%	3%
5 years to 10 years	100%	0%
10 years and above	100%	95%

Explanation of prudential indicators

Central Government control of borrowing was ended and replaced with Prudential borrowing by the Local Government Act 2003. Prudential borrowing permitted local government organisations to borrow to fund capital spending plans provided they could demonstrate their affordability. Prudential indicators are the means to demonstrate affordability.

Gross borrowing – compares estimated gross borrowing in February 2018 strategy with actual gross borrowing as at 31 December 2018.

Capital financing requirement (CFR) – the capital financing requirement shows the underlying need of the Council to borrow for capital purposes as determined from the balance sheet. The overall positive CFR of £111,484m provides the Council with the opportunity to borrow if appropriate. No external borrowing is planned for 2018/19, and principal borrowed from Hampshire County Council is due to be repaid in February 2019.

Authorised limit for external debt - this is the maximum limit for gross external indebtedness. This is the statutory limit determined under section 3(1) of the Local Government Act 2003. This limit is set to allow sufficient headroom for day to day operational management of cashflows.

Operational boundary for external debt – this is set as the more likely amount that may be required for day to day cashflow. This limit has not been breached in the period 1 April 2018 to 31 December 2018.

Upper limit for total principal sums invested for over 365 days – the amount it is considered can prudently be invested for a period in excess of a year. Current policy only permits lending beyond 1 year with other Local Authorities up to a maximum of 3 years.

Upper limit for fixed and variable interest rate exposure – these limits allow the Council flexibility in its investment and borrowing options. Current investments are either fixed rate term investments or on call. Borrowing is at a fixed rate.

STROUD DISTRICT COUNCIL | **AGENDA ITEM NO**

AUDIT AND STANDARDS COMMITTEE

29 JANUARY 2019 | **11**

Report Title	**TREASURY MANAGEMENT STRATEGY, ANNUAL INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION POLICY STATEMENT 2019/20**
Purpose of Report	This report outlines the Council's prudential indicators for 2019/20 – 2021/22 and sets out the treasury strategy for this period. It fulfils three key reports required by the Local Government Act 2003: • reporting prudential indicators required by the CIPFA Prudential Code for Capital Finance in Local Authorities; • a treasury management strategy in accordance with the CIPFA Code of Practice on Treasury Management; • an investment strategy in accordance with the MHCLG investment guidance. It also fulfils the statutory duty to approve a minimum revenue policy (MRP) statement for 2019/20.
Decision(s)	**The Audit and Standards Committee RECOMMEND that Council:** **1. adopt the prudential indicators and limits for 2019/20 to 2021/22;** **2. approve the treasury management strategy 2019/20, and the treasury prudential indicators;** **3. approve the investment strategy 2019/20, and the detailed criteria for specified and non-specified investments; and** **4. approve the MRP Statement 2019/20.**
Consultation and Feedback	Link Asset Services (LAS)

Financial Implications and Risk Assessment	This report sets out the Council's policies on investments and borrowing including any appropriate limits or guidelines on such activities. The whole report is of a financial nature and detailed indicators are included within. The Budget for consideration by Council in January 2019 increases the income targets for investment returns. The policies within this strategy are deemed sufficient to meet those targets whilst also considering security and liquidity. Andrew Cummings Head of Finance and Section 151 Officer Email: andrew.cummings@stroud.gov.uk
Legal Implications	The report and recommendations set out how the Council is compliant with statutory requirements of local authorities Nicola Swan, Interim Head of Legal & Monitoring Officer Tel: 01453 754369 Email: nicola.swan@stroud.gov.uk
Report Author	Graham Bailey, Principal Accountant Tel: 01453 754133 E-mail: graham.bailey@stroud.gov.uk
Chair of Committee	Councillor Nigel Studdert-Kennedy Tel: 01453 821491 E-mail: cllr.nigel.studdert-kennedy@stroud.gov.uk
Options	Full Council is required to adopt the prudential indicators and approve the annual treasury management strategy. These are largely determined by the Council's revenue and capital budget decisions when setting the 2019/20 Council Tax, Housing rent levels and the capital programme.
Performance Management Follow Up	Quarterly and annual Treasury Management reports of actual compared with estimated prudential indicators for 2019/20. Any breaches of the Prudential Code will be reported to the Audit and Standards Committee. A breach of the Authorised Borrowing Limit would require immediate investigation and reporting to Council.

Background Papers	Treasury Management Policy Statement Treasury Management Practices - Main Principles Treasury Management Practices – Schedules The Prudential Code for Capital Finance in Local Authorities (2017) Treasury Management in the Public Services Guidance Notes for Local Authorities (2018) Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (2017) CIPFA statement on borrowing in advance of need and investments in commercial properties.
Appendices	A. Investments at 31 December 2018 B. Explanation of Prudential Indicators C. Economic Background D. Treasury Management Scheme of Delegation

Discussion

1. Under the Local Government Act 2003 (the Act) and supporting regulations the Council is required to "have regard to" the Chartered Institute of Public Finance and Accountancy (CIPFA) 2017 Prudential Code and the CIPFA 2017 Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.
2. Council is required to approve an Annual Treasury Management Strategy Statement for borrowing, and an Investment Strategy which sets out the Council's policies for managing its investments and for giving priority to security and liquidity of investments.
3. There is also a statutory duty to approve a Minimum Revenue Provision (MRP) Policy Statement for the year and this is set out in paragraphs 2.6 – 2.10 of this report.
4. CIPFA Code of Practice on Treasury Management requires the Council to maintain a Treasury Management Manual, which is reviewed annually. This manual is a record of internal procedures and operational guidance, as such it is not subject to approval by Members. The manual incorporates the following documentation relating to Treasury management:

   - Treasury Management Policy Statement. This is reviewed annually.
   - Treasury Management Practices (TMP) – Main Principles. There are 12 practices which set out the manner in which this Council will seek to achieve its treasury management policies and objectives and how it will manage and control those activities. These are reviewed annually.
   - Treasury Management Practices – Schedules. These schedules set out the details of how the TMPs are put into effect by this

Council. This document is revised annually to include the latest detailed procedural documents.

- Counterparty Lending List and lending criteria. The list used by the Council is provided by Link Asset Services (LAS), the Council's treasury advisors. A new list is provided weekly, and there are daily updates by email of any changes to ratings.

5. Other CIPFA requirements are:

- a Mid-Year Report and an Annual Report covering activities during the previous year;
- a Capital Strategy;
- delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions. At this Council, delegation is to the Section 151 officer;
- delegation by the Council of the role of scrutiny of treasury management reports and strategy to a specific named body. For this Council the delegated body is the Audit and Standards Committee.

Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Statement 2019/20

1. INTRODUCTION

1.1 The Act and supporting regulations require the Council to 'have regard to' the CIPFA Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

1.2 The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act). This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

1.3 The 2019/20 strategy for the following aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with market forecasts provided by the Council's treasury advisor, LAS. The strategy covers:

- limits in force to mitigate the Council's treasury risk;
- Prudential Indicators;
- current treasury position;
- borrowing requirement;
- prospects for interest rates;
- borrowing strategy;
- policy on borrowing in advance of need;
- investment strategy;

- creditworthiness policy;
- policy on use of external service providers;
- Minimum Revenue Provision (MRP) statement;
- treasury management scheme of delegation and section 151 role;
- miscellaneous treasury issues.

1.4 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:

- increases in interest charges and minimum revenue provision caused by increased borrowing to finance additional capital expenditure, and
- any increases in running costs from new capital projects are limited to a level which is affordable for the foreseeable future.

2. CAPITAL PRUDENTIAL INDICATORS FOR 2019/20 TO 2021/22

2.1 Capital expenditure plans are a key driver of treasury management activity. There are prudential indicators that focus on the Council's capital spending plans.

2.2 The first prudential indicator is a summary of the Council's capital expenditure plans, shown in Table 1.

Table 1: Capital Expenditure

Capital Expenditure	2017/18 £000 Actual	2018/19 £000 Estimate	2019/20 £000 Estimate	2020/21 £000 Estimate	2021/22 £000 Estimate
Community Services	8	138	200	-	-
Environment	820	2,393	1,566	22,108	355
Housing General Fund	460	1,179	1,530	330	330
Strategy & Resources	3,191	940	720	800	2,017
General Fund	**4,479**	**4,650**	**4,016**	**23,238**	**2,702**
HRA	**6,002**	**10,153**	**14,753**	**12,085**	**10,933**
Total	**10,481**	**14,803**	**18,769**	**35,323**	**13,635**

2.3 Any shortfall of resources to finance the capital programme results in a borrowing need as set out in Table 2 below.

Table 2: Capital Financing

Capital Expenditure	2017/18 £000 Actual	2018/19 £000 Estimate	2019/20 £000 Estimate	2020/21 £000 Estimate	2021/22 £000 Estimate
General Fund	4,479	4,650	4,016	23,238	2,702
HRA	6,002	10,153	14,753	12,085	10,933
Total	**10,481**	**14,803**	**18,769**	**35,323**	**13,635**
Financed by:					
Capital receipts	2,455	1,615	1,491	3,326	1,241
Capital grants	524	2,136	2,420	19,333	905
Capital reserves	4,156	1,729	850	1,075	400
Revenue	1,319	8,687	9,179	5,035	8,231
Net GF Financing Need for the year	**2,027**	**636**	**904**	**3,063**	**1,472**
Net HRA Financing Need for the year	**0**	**0**	**3,925**	**3,491**	**1,386**

2.4 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic capital expenditure which has not yet been financed from either revenue or capital resources. It is the measure of the Council's underlying borrowing need. Any newly planned unfinanced capital expenditure will increase the CFR.

2.5 The Council is asked to approve the CFR projections below that are in line with approved capital budgets:

Table 3: The Council's borrowing need (Capital Financing Requirement)

Capital Financing Requirement	2017/18 £000 Actual	2018/19 £000 Estimate	2019/20 £000 Estimate	2020/21 £000 Estimate	2021/22 £000 Estimate
CFR - General Fund	16,622	15,967	15,890	17,913	18,240
CFR - HRA	95,742	95,742	98,767	101,221	101,371
Total CFR	112,364	111,709	114,657	119,134	119,611
Movement in CFR	907	-655	2,948	4,477	477

Movement in CFR represented by					
Net financing need for the year	2,027	636	4,829	6,554	2,858
Less MRP / VRP and other financing movements	-1,120	-1,291	-1,881	-2,077	-2,381
Movement in CFR	907	-655	2,948	4,477	477

Minimum Revenue Provision (MRP) Policy Statement 2019/20

2.6 The Council's MRP policy statement for 2019/20 is in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003. MRP will be charged under Option 3 of the MHCLG guidance on General Fund borrowing. Option 3 is an MRP charge over a time period reasonably commensurate with the estimated useful life of a new asset.

2.7 There is no requirement to charge MRP to the HRA. However, following on from the introduction of Self-Financing the HRA is required to charge depreciation on its assets for financial years commencing April 2017. As a result, depreciation is a real cost to the HRA from financial year 2017/18. The regulations had previously allowed for the Major Repairs Allowance to be used as a proxy for depreciation until 31 March 2017.

2.8 The HRA and the General Fund will make Voluntary Revenue Provision (VRP) when this is considered prudent. The General Fund made a VRP in 2017/18 of £0.283m, and the HRA has planned VRP of £0.9m in 2019/20, £1.037m in 2020/21 and £1.236m in 2021/22.

2.9 The General Fund MRP liability began when the General Fund undertook borrowing during financial year 2016/17. Borrowing in respect of The Pulse fitness extension, the Multi-Service contract vehicles, premises and equipment, and more recently the Littlecombe Business Units has resulted in a requirement to charge the General Fund with MRP, as a prudent provision for the repayment of that debt.

2.10 The status of £2m of funding received from the HCA in respect of capital development works to Brimscombe Port is effectively a loan, although a future capital receipt arising from the property asset transferred to the Council as part of the development agreement should be sufficient to repay that loan. At this stage no MRP provision is being charged to the General Fund. However, this position will be kept under review.

Table 4: Core Funds and Expected Investments

Year end resources	2017/18 £m Actual	2018/19 £m Estimate	2019/20 £m Estimate	2020/21 £m Estimate	2021/22 £m Estimate
Fund balances / reserves	30.138	28.233	24.806	22.622	18.335
Capital receipts	5.233	8.566	8.051	5.350	4.734
Provisions	1.438	0.665	0.665	0.665	0.665
Other	1.179	0.500	0.500	0.500	0.500
Total Core funds	**37.988**	**37.964**	**34.022**	**29.137**	**24.234**
Working capital	-0.793	0.500	0.500	0.500	0.500
Under (-) / over borrowing	-6.646	-7.992	-8.940	-11.417	-9.894
Expected investments	**30.549**	**30.472**	**25.582**	**18.220**	**14.840**

2.11 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed in Table 4 above are estimates of the year-end balances for each resource and total cash flow balances.

Affordability of capital plans prudential indicators

2.12 A prudential indicator is required to assess the affordability of capital expenditure plans. This indicator provides an estimate of the impact of capital investment plans on the Council's overall finances. The Council is asked to approve the cost of capital expenditure plans as a ratio of the net revenue stream indicator shown in table 5.

Table 5: Ratio of financing costs to net revenue stream

	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Non-HRA	-0.84%	-1.17%	-1.80%	-0.34%	-0.68%
HRA	16.09%	16.23%	16.23%	17.87%	18.01%

3. BORROWING

3.1 Amongst the objectives of the treasury management function are ensuring that the Council's cash is managed in accordance with relevant professional codes and that sufficient cash is available at the right times to facilitate revenue and capital spending plans. Capital expenditure plans as set out in section 2 indicate if borrowing is required.

3.2 Table 6 shows the actual external debt (the treasury management operations), compared against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Table 6: Gross Debt compared with Capital Financing Requirement (CFR)

	2017/18 £m Actual	2018/19 £m Estimate	2019/20 £m Estimate	2020/21 £m Estimate	2021/22 £m Estimate
External Debt					
Debt at 1 April	106.717	105.717	103.717	105.717	107.717
Expected change in debt	-1.000	-2.000	2.000	2.000	2.000
Other long term liabilities at 1 Apr	-	-	-	-	-
Actual Gross Debt at 31 March	105.717	103.717	105.717	107.717	109.717
Capital Financing Requirement	112.364	111.709	114.657	119.134	119.611
Under / (-) over borrowing	6.647	7.992	8.940	11.417	9.894

Borrowing Strategy

3.3 Currently the Council has £105.717m of borrowing, compared with a Capital Financing Requirement (CFR) of £112.364m. This means that the capital borrowing need (the CFR), is greater than loan debt by £6.647m. The Council has taken no borrowing during the 2018/19 financial year.

3.4 There was a limit on HRA borrowing set by the Government in the Localism Act 2011 known as the HRA debt cap. This Council's HRA debt cap was £95.742m. This cap was the absolute limit for HRA borrowing under the Prudential Code, even if the Council considered further borrowing was affordable by the HRA. The 2017/18 HRA CFR was £95.742m and borrowing was £95.742m, this means that borrowing 'headroom' following HRA self-financing was fully utilised measured against the cap, as shown by table 9.

3.5 During 2018/19 the HRA debt cap was withdrawn. Consequently, HRA capital plans have been revised to include further borrowing commencing in 2019/20 of £10.699m. General Fund capital plans include borrowing of £9.122m up to 2023/24. The Section 151 officer will decide on the length and type of borrowing, as well as the optimum time to borrow in consultation with LAS, and take into account the latest projections for interest rates and other relevant factors including any benefits arising from internal borrowing.

3.6 A £2m loan from Hampshire County Council is due for repayment in February 2019.

3.7 At the end of 2018/19 there is an estimated internal borrowing position of £7.992m. Internal borrowing is currently beneficial because it reduces the financial impact of the differential between borrowing and investment interest rates. This position is projected as continuing through the period to 2021/22. Although, with the MTFP forecasting the running down of balances, and possible future changes in interest rate forecasts the Section 151 officer will keep this under review, and adjust the strategy as necessary in consultation with our Treasury advisers LAS.

3.8 Within the prudential indicators, there are key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not for revenue purposes.

3.9 The Section 151 officer reports that the Council complied with this prudential indicator in the current year and does not expect any breaches up to and including financial year 2021/22. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.10 There are two Treasury indicators set which limit external debt. The operational boundary is the limit that external debt should not normally exceed. If external debt were to exceed this figure then it should prompt an internal investigation to establish the reasons why the breach had occurred.

Table 7: Operational Boundary

Operational Boundary	2018/19 £m Estimate	2019/20 £m Estimate	2020/21 £m Estimate	2021/22 £m Estimate
Debt	122	127	134	136
Other Long Term Liabilities	-	-	-	-
Total	122	127	134	136

3.11 The Authorised Limit is set or revised by full Council, and must not be exceeded. It represents the level of debt that is unsustainable in the longer term. It is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control local government borrowing in total or for specific councils. This power has not been used to date.

3.12 The Council is asked to approve the following Authorised Limit:

Table 8: Authorised Limit for External Debt

Authorised Limit	2018/19 £m Estimate	2019/20 £m Estimate	2020/21 £m Estimate	2021/22 £m Estimate
Debt	130	135	142	144
Other Long Term Liabilities	-	-	-	-
Total	130	135	142	144

3.13 A separate control on the Council's borrowing was a limit on the maximum HRA CFR introduced as part of HRA self-financing. This Council had some headroom to borrow over and above the self-financing settlement amount. The borrowing headroom was used up by 31 March 2017. No further borrowing by the HRA was permitted up until 29 October 2018. On that date the HRA Debt Limit was abolished, therefore HRA investments funded by borrowing are now permitted subject to application of the affordability criteria set out by the Prudential Code. This is shown in the next table:

Table 9: HRA Debt Limit

HRA Debt Limit	2017/18 £m Actual	2018/19 £m Estimate	2019/20 £m Estimate	2020/21 £m Estimate	2021/22 £m Estimate
Actual HRA CFR	95.742	95.742	98.767	101.221	101.436
Limit	95.742	95.742	N/A	N/A	N/A
Headroom	-	-	N/A	N/A	N/A

3.14 Link Asset Services (LAS) are treasury advisers to the Council and part of their service is to assist the Council to formulate a view on interest rates. The following table gives the latest LAS forecast as at November 2018.

Table 10: Interest Rate Forecast

Month	Bank Rate	PWLB Borrowing Rates		
		5 year	25 year	50 year
Dec-18	0.75	2	2.9	2.7
Mar-19	0.75	2.1	2.9	2.7
Jun-19	1	2.2	3	2.8
Sep-19	1	2.2	3.1	2.9
Dec-19	1	2.3	3.1	2.9
Mar-20	1.25	2.3	3.2	3
Jun-20	1.25	2.4	3.3	3.1
Sep-20	1.25	2.5	3.3	3.1
Dec-20	1.5	2.5	3.4	3.2
Mar-21	1.5	2.6	3.4	3.2

Treasury management limits on activity

3.15 The purpose of treasury management limits are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these limits are set to be too restrictive they will impair the opportunities to reduce costs or improve performance. The maturity structure of borrowing limits are set out in Table 11. The gross limits are set to control the Council's exposure to large fixed rate sums falling due for refinancing at the same time. Upper and lower limits are set for each time period.

3.16 The Council is asked to approve the following treasury indicators and limits:

Table 11: Maturity structure of borrowing

Maturity structure of new fixed and variable rate borrowing during 2019/20	Upper Limit	Lower Limit
Under 12 months	25%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	75%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Table 12: Non-specified investment limit

Upper Limit for total principal sums invested for over 365 days	2017/18	2018/19	2019/20	2020/21	2021/22
Investments	£8m	£10m	£15m	£15m	£15m

Policy on borrowing in advance of need

3.17 The Council will not borrow more than, or in advance of, need purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within approved Capital Financing Requirement estimates as required by the Prudential Code (see paragraph 3.3). Decisions to borrow will seek to ensure value for money and security of funds.

3.18 The Council will consider borrowing up to 12 months ahead of capital spend:

- If such capital spend is considered very likely to occur within 12 months;
- treasury advisers demonstrate that rates are particularly low and likely to move higher within 12 months;
- treasury advisers evaluate a net saving after assessing cost of carry;

- a trigger rate(s) will be set by s151 officer in consultation with treasury advisers and treasury officers;
- borrowing may be conducted in parcels – eg £4m could be split into 4 x £1m or 2 x £2m;
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been fully considered;
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;
- consider the merits and demerits of alternative forms of funding;
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use;

3.19 The foregoing usual procedure will not prevent the s151 officer from forward borrowing to the fullest extent permitted by the Prudential Code, CFR for the current year plus the following two years, if extraordinary conditions arise in the short term to make such action in the interests of the authority.

Debt rescheduling

3.20 Now that the Council has £105.7m of debt, the Section 151 officer will keep under review opportunities for debt rescheduling. Debt rescheduling is reported to Council at the next meeting after it occurs.

4. ANNUAL INVESTMENT STRATEGY

Investment Policy

4.1 It is vital in the current climate of uncertainty around funding that the Council ensures that its investment balances are best utilised to help its financial position. Appendix A shows a net balance of over £50m invested. Improving average returns on the Council portfolio will be a significant factor in improving financial sustainability and is in line with the Medium Term Financial Plan. In accordance with this strategy all activities to increase return will include appropriate consideration of risk. It must be recognised however, that under achievement of returns also represent a key financial risk

4.2 The Council will have regard to the MHCLG's Guidance on Local Government Investments ("the Guidance") issued in March 2004, any updates to that guidance such as the 2018 update, and the 2017 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA Treasury Management Code"). The Council's investment priorities in order are:

1) security of capital
2) liquidity of investments
3) rate of return

4.3 In accordance with the above, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what the ratings mean for each agency. LAS's bank ratings service enables real-time monitoring of a bank's rating. Daily emails are sent to the Council to notify of any significant change to a bank rating, and are available on the Passport online portal.

4.4 Further, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector. Assessment will also take account of information reflecting the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" (CDS). Other information sources used will include the financial press, share price and other such information about the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4.5 The intention of the strategy is to provide security of investment and an awareness of risk.

4.6 The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is generally low in order to give priority to security of investments, however this does not preclude the consideration and implementation of higher risk investments as part of a balanced portfolio of investments, subject to proper due diligence by the Section 151 officer.

4.7 Borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

4.8 'Specified' Investments which are investments with a high level of credit quality and maturities of up to 1 year and 'Non-Specified' Investments which are of a lower credit quality, may be for longer periods than 1 year and are more complex investment instruments which require proper due diligence before they are authorised for use during the financial year.

Specified Investments

4.9 All specified investments will be sterling denominated, with maturities up to 1 year or less (including any forward deal time), subject to LAS's colour coding rating system as set out in creditworthiness policy paragraphs 4.21 – 4.26.

Table 13: Specified Investments

Type of Investment	Minimum 'High' Credit Criteria	Max Sum** per institution / group
Debt Management Agency Deposit Facility	*	Unlimited
Term deposits – local authorities	*	£8m
Term deposits – banks and building societies	Colour coded as per CAS Weekly counterparty listing (AA-countries & UK only)	£8m
UK Government Gilts	*	£12m
Bonds issued by multilateral development banks	*	£8m
Bonds issued by a financial institution which is guaranteed by the UK government	*	£8m
Treasury Bills	*	£12m
Certificates of deposits issued by banks and building societies	Colour coded as per CAS Weekly counterparty listing (AA-countries & UK only)	£8m
Money Market Funds (CNAV)	AAA	£4m per MMF & £12m total in MMFs
Money Market Funds (LVNAV)	AAA	£4m per MMF & £12m total in MMFs
Money Market Funds (VNAV)	AAA	£2m & £12m total in MMFs

Non-Specified Investments

4.10 All investments will be sterling denominated.

4.11 Table 14 includes some different investment options this year which will enable the Council to engage in longer term investments that may generate higher returns over the medium to longer term.

4.12 Investments newly included in the listing of non-specified investments this year are Short Dated Bond Funds, UK Gilt Funds, UK Index Linked Gilt Funds, £ Corporate Bond Funds, UK Equity & Bond Income Funds, Mixed Investments 0-35% Shares, Mixed Investments 20-60% Shares and Mixed Investments 40-85% Shares. There is a list of definitions below Table 14.

4.13 Investments will not necessarily be made in all categories but they are included to allow the Council to put together a balanced portfolio to mitigate risk. Member training has been held which sets out characteristics of these categories.

4.14 There are some important considerations that need to be borne in mind when considering non-specified investment types:

- There is a need to commit to investing for the medium to longer term and so funds invested need to be sourced from balances that will not be called upon for cash flow purposes in the short term;
- Some investments have naturally fluctuating capital values, whilst still providing a revenue income stream;
- Fluctuation in the value of pooled investments has no impact upon the General Fund in the short term. This is because government has given local government a 5 year mitigation commencing April 2018 under the accounting standard IFRS9 which affects the accounting for pooled investments. Without the mitigation, IFRS9 would have meant charging any fluctuations in capital values of investments against the Council's revenue expenditure each year.
- The Section 151 officer will subject any investment proposals to extensive due diligence using investment advisers as appropriate.

4.14 Before the first investment is made in pooled funds the Council will carry out a selection process which will include member involvement.

Table 14: Non-specified Investments - Maturities in excess of 1 year

Financial instrument / institution	Minimum Credit Criteria	Max. maturity period	Max. Sum**
Term deposits – banks and building societies	Colour coded as per LAS Weekly counterparty listing (AA- countries & UK only)	3 years	£8m
Certificates of deposits issued by banks and building societies	Colour coded as per LAS Weekly counterparty listing (AA- countries & UK only)	3 years	£8m
Property Funds	***	25 years	£10m
Short Dated Bond Funds	****	3 years	£3m
UK Gilts Funds	****	4 years	£3m
UK Index Linked Gilts Funds	****	4 years	£3m
£ Corporate Bond Funds	****	4 years	£3m
UK Equity & Bond Income Funds	****	10 years	£3m
Mixed Investments 0-35% Shares	****	3 years	£3m
Mixed Investments 20-60% Shares	****	4 years	£3m
Mixed investments 40-85% Shares	****	5 years	£3m
Corporate Bonds	AA-	3 years	£3m
UK Local Authorities	*	3 years	£8m
UK Government Gilts	*	3 years	£8m
Bonds issued by multilateral development banks	*	3 years	£8m
Bonds issued by a financial institution which is guaranteed by the UK government	*	3 years	£8m

* Government institutions have the highest security, although they are not formally rated.

** A maximum sum refers to the combined total of specified and non-specified investments with a particular bank, or group if specified.

*** Any investment would be subject to an evaluation process and a report to Strategy and Resources Committee.

**** Due diligence Section 151 Officer

Investment Definitions

Short Dated Bond Funds which focus on shorter-term investments, typically with a maturity limit of 5 years. May invest in all forms of fixed income investments, including government and corporate debt. They are often limited to only using investment grade bonds (BBB-rated and higher), but some funds may make use of sub-investment grade bonds, or unrated issuance.

UK Gilt Funds which invest at least 95% of their assets in Sterling denominated (or hedged back to Sterling) government backed securities, with a rating the same or higher than that of the UK, with at least 80% invested in UK government securities (Gilts).

UK Index Linked Gilt Funds which invest at least 95% of their assets in Sterling denominated (or hedged back to Sterling) government backed index linked securities, with a rating the same or higher than that of the UK, with at least 80% invested in UK Index Linked Gilts.

£ Corporate Bond Funds which invest at least 80% of their assets in Sterling denominated (or hedged back to Sterling), Triple BBB minus or above corporate bond securities (as measured by Standard & Poors or an equivalent external rating agency). This excludes convertibles, preference shares and permanent interest bearing shares (PIBs).

UK Equity & Bond Income Funds which invest at least 80% of their assets in the UK, between 20% and 80% in UK fixed interest securities and between 20% and 80% in UK equities. These funds aim to have a yield in excess of 120% of the FTSE All Share Index.

Mixed Investments 0 – 35% Share Funds in this sector are required to have a range of different investments. Up to 35% of the fund can be invested in company shares (equities). At least 45% of the fund must be in fixed income investments (for example, corporate and government bonds) and/or "cash" investments. "Cash" can include investments such as current account cash, short-term fixed income investments and certificates of deposit.

Mixed Investments 20 – 60% Shares Funds in this sector are required to have a range of different investments. The fund must have between 20% and 60% invested in company shares (equities). At least 30% of the fund must be in fixed income investments (for example, corporate and government bonds) and/or "cash" investments. "Cash" can include investments such as current account cash, short-term fixed income investments and certificates of deposit.

Mixed Investments 40 – 85% Shares Funds in this sector are required to have a range of different investments. However, there is scope for funds to have a high proportion in company shares (equities). The fund must have between 40% and 85% invested in company shares.

Property Funds invest an average of at least 70% of their assets direct in UK property over 5 year rolling periods.

Investment Strategy

4.15 Cash flow forecast requirements and the outlook for short-term interest rates are important factors to consider when making investments. During 2018 base interest rate was 0.5% until August when the base interest rate rose to 0.75%. This was the second base interest rate rise since 2007.

4.16 In 2019-20 the Council will continue to invest for the longest permitted duration with quality counterparties to maximise return without compromising security, or liquidity. In particular instances the Section 151 Officer will authorise investments in the LAS blue category (see para 4.22) for a period of up to two years, which is currently longer than the LAS recommended duration of one year. Otherwise, the length of investments permitted will vary if necessary in line with LAS advice subject to the Council's upper time limits.

Table 15: Investments maturing after the end of the current financial year.

Financial Institution	Amount £	Maturity	Rate
Natwest	1,000,000	19/07/2019	0.99%
Natwest	1,000,000	02/09/2019	1.05%
Goldman Sachs	2,000,000	26/06/2019	0.755%
Toronto Dominium	2,000,000	06/11/2019	1.16%
Lloyds	2,000,000	22/05/2019	1.00%

4.17 Bank Rate is currently forecast to continue on a rising trend with further 0.25% increases forecast for June 2019 and March 2020, this would take base rate up to 1.25% in March 2020.

4.18 The Council will primarily make short-dated deposits of up to a year with appropriately rated banks or UK local authorities rather than utilising call accounts or money market funds in order to maximise interest. Transaction costs will be taken into account in any investment decision for smaller sums, which means balances of up to £1m may be retained in lower interest rate accounts. This will be done to save transaction costs, where transaction costs would exceed interest earned.

4.19 The 2019-20 financial year will mark the start of the Council taking a more diverse approach to investments in accordance with the limits above. The Section 151 officer will consider a range of investments newly introduced within the unspecified investment category to gain a greater return on the Council's core balances that can be invested over the medium to longer term. This will be done whilst maintaining liquidity in accordance with the forecasts of cash flow.

4.20 There will be daily monitoring of investments by treasury staff and there will be first quarter, half year, third quarter and year end reports that detail investment activity and performance to Audit and Standards Committee and to Council.

Creditworthiness policy

4.21 This Council applies the creditworthiness service provided by LAS. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

4.22 This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- **Yellow** 3 years
- **Dark pink** 3 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- **Light pink** 3 years for Ultra-Short Dated Bond Funds with credit score of 1.5
- **Purple** 2 years
- **Blue** 1 year (only applies to nationalised or semi nationalised UK Banks)
- **Orange** 1 year
- **Red** 6 months
- **Green** 100 days
- **No colour** not to be used

4.23 This creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, does not give undue impact to just one agency's ratings.

4.24 Typically the minimum credit ratings criteria the Council uses will be a short term rating (Fitch or equivalents) of short term rating F1 and a long term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings, but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

4.25 All credit ratings will be monitored prior to making an investment decision. The Council is alerted to changes to ratings of all three agencies through its use of the LAS creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via LAS's Passport website. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

4.26 The Council will not place sole reliance on the use of this external service. In addition this Council will use market data and market information, and information on external support for banks to help support its decision making process.

Country limits

4.27 The Council will only invest in the UK and countries with a sovereign rating of AA- or higher. The following countries currently have sovereign ratings of AA- or higher, and also have banks operating in sterling markets which have credit ratings of green or above in LAS credit worthiness service.

AAA	**AA+**	**AA**	**AA-**
Australia	Finland	Abu Dhabi (UAE)	Belgium
Canada	USA	France	Qatar
Denmark		Hong Kong	
Germany		UK	
Luxemburg			
Netherlands			
Norway			
Singapore			
Sweden			
Switzerland			

5. MISCELLANEOUS TREASURY ISSUES

Use of external service providers

5.1 Link Asset Services (LAS), are the Council's treasury management advisers. However, responsibility for treasury management decisions remains with the Council at all times, therefore undue reliance will not be placed upon our external treasury management advisers. The current contract has an end date of 30 September 2020.

Member Training

5.2 The CIPFA Code requires the Section 151 officer to arrange the provision of adequate training for members. Member training was held on 4 December 2018. Training is necessary to enable Audit and Standards Committee members to fulfil their role more effectively.

INVESTMENTS AS AT 31 December 2018

Counterparty	£	%	S / NS	Type	Issue	Maturity
NatWest Treasury Reserve	2,420,303	0.20%	S	Call		
RBS Deposit Account	7,508	0.35%	S	Call		
Natwest RFB	1,000,000	0.99%	S	CD	20/07/2018	19/07/2019
Natwest RFB	1,000,000	1.05%	S	CD	03/09/2018	02/09/2019
Natwest RFB	2,000,000	0.90%	S	CD	11/09/2018	11/03/2019
Natwest RFB	2,000,000	0.81%	S	CD	28/09/2018	03/01/2019
Natwest RFB	1,000,000	0.81%	S	CD	19/10/2018	21/01/2019
NatWest/RBS GroupTotal	**9,427,811**					
Goldman	3,437,043	0.68%	S	Call		
Federated Prime Rate	3,928,679	0.73%	S	Call		
Deutsche	1,251	0.67%	S	Call		
Aberdeen (prev Standard Life)	608,502	0.66%	S	Call		
Money Market Fund Total	**7,975,476**					
Santander	1,000,000	0.84%	S	Fixed	11/10/2018	08/03/2019
Santander	2,000,000	0.87%	S	Fixed	08/11/2018	08/03/2019
Santander	2,000,000	0.90%	S	Fixed	19/11/2018	08/03/2019
Santander	900,000	0.91%	S	Fixed	04/12/2018	25/03/2019
Santander - 180 day Notice	2,069,379	0.95%	S	Notice		
Santander - 95 day Notice	846	0.85%	S	Notice		
Santander Total	**7,970,225**					
Svenska call	1,944	0.20%	S	Call		
Svenska Total	**1,944**					
Bank of Scotland	1,500,000	0.85%	S	Fixed	19/02/2018	18/02/2019
Bank of Scotland Total	**1,500,000**					
32 day notice	2,015,549	0.75%	S	Notice		
Lloyds	2,000,000	1.00%	S	Fixed	22/05/2018	22/05/2019
175 day notice	2,452,206	1.00%	S	Notice		
Lloyds Total	**6,467,755**					
Barclays FIBCA	1,433	0.10%	S	Call		
Barclays 95 Day Notice	7,029,611	0.95%	S	Notice		
Barclays Total	**7,031,044**					
95 day notice	2,000,000	1.01%	S	Notice		
Standard Chartered	1,000,000	0.84%	S	CD	02/11/2018	04/03/2019
Standard Chartered	2,000,000	0.91%	S	CD	19/11/2018	19/03/2019
Standard Chartered Total	**5,000,000**					
Goldman Sachs 185 Day Notice	2,000,000	0.755%	S	Notice given		23/06/2019
Goldman Sachs Total	**2,000,000**					
Credit Industriel et Commercial	2,000,000	0.80%	S	CD	08/10/2018	06/02/2019
Credit Industriel et Commercial	**2,000,000**					
Toronto Dominion	2,000,000	1.16%	S	CD	07/11/2018	06/11/2019
Toronto Dominion	**2,000,000**					
Coventry Building Society	2,000,000	0.77%	S	Fixed	03/09/2018	01/02/2019
Coventry Building Society	**2,000,000**					
TOTAL INVESTMENTS	**53,374,254**					

S = Specified Investment - 1 year and less
NS = Non-specified investment - over 1 year
SONIA = Sterling Over Night Index Average

EXPLANATION OF PRUDENTIAL INDICATORS

Central government control of borrowing was ended and replaced with Prudential borrowing by the Local Government Act 2003. Prudential borrowing permits local government organisations to borrow to fund capital spending plans provided they can demonstrate their affordability. Prudential indicators are the means to demonstate affordability.

Capital expenditure – table 1 shows last year's capital expenditure, this year's projected capital expenditure and the approved programme until 2021/22.

Ratio of financing costs to net revenue stream – table 5 shows that the General Fund currently receives a small net income from the investment of balances. HRA borrowing means that interest on net borrowing now accounts for between 16.09% and 18.01% of net revenue.

Net borrowing need – table 2 shows borrowing planned to fund the capital programme.

Capital financing requirement (CFR) as at 31 March – table 3 shows the CFR which is the council's underlying need to borrow for capital purposes as determined from the balance sheet. Table 6 shows the overall CFR is £112.364m. As the Council has borrowing of £105.717m the balance sheet shows there is currently under borrowing of £6.647m, which is projected to increase to £7.992m by 31 March 2019.

HRA debt limit – table 9 shows the absolute limit had been reached for HRA indebtedness when measured against the HRA CFR of £95.742m. However, the removal of the HRA debt limit means that £5.629m of net additional HRA borrowing is now planned up to 2021/22.

Authorised limit for external debt - table 8 shows the maximum limit for external borrowing. This is the statutory limit determined under section 3(1) of the Local Government Act 2003. This limit is set to allow sufficient headroom for day to day operational management of cashflows.

Operational boundary for external debt – table 7 shows the more likely limit to the level of external debt that may be required for day to day cashflow.

Upper limit for total principal sums invested for over 365 days – table 12 shows the amount it is considered can be prudently invested for period in excess of a year.

ECONOMIC BACKGROUND

GLOBAL OUTLOOK. World growth has been doing reasonably well, aided by strong growth in the US. However, US growth is likely to fall back in 2019 and, together with weakening economic activity in China, overall world growth is likely to weaken.

Inflation has been weak during 2018 but, at long last, unemployment falling to remarkably low levels in the US and UK has led to a marked acceleration of wage inflation which is likely to prompt central banks into a series of increases in central rates. The EU is probably about a year behind in a similar progression.

KEY RISKS - central bank monetary policy measures
Looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as quantitative easing (QE), where central banks bought large amounts of central government debt and smaller sums of other debt.

The key issue now is that that period of stimulating economic recovery and warding off the threat of deflation, is coming towards its close. A new period has already started in the US, and more recently in the UK, on reversing those measures i.e. by raising central rates and, (for the US), reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of an on-going reduction in spare capacity in the economy, and of unemployment falling to such low levels that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this also encouraged investors into a search for yield and into investing in riskier assets such as equities. Consequently, prices in both bond and equity markets rose to historically high valuation levels simultaneously. This now means that both asset categories are vulnerable to a sharp downward correction. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to neither squash economic recovery, by taking too rapid and too strong action, nor, conversely, let inflation run away by taking action that was too slow and/or too weak. **The potential for central banks to get this timing and strength of action wrong are now key risks.**

The world economy also needs to adjust to a sharp change in **liquidity creation** over the last five years where the US has moved from boosting liquidity by QE purchases to reducing its holdings of debt. In addition, the European Central Bank has cut back its QE purchases substantially and is likely to end them completely by the end of 2018.

UK. The first half of 2018/19 has seen UK **economic growth** post only a modest performance. However, after an adverse weather depressed performance in quarter 1, growth has been recovering apace and the latest 3 month rolling average came in at a healthy 0.7%. The positive run of economic statistics was sufficiently robust for the

Monetary Policy Committee, (MPC), to unanimously (9-0) vote to increase **Bank Rate** on 2nd August from 0.5% to 0.75%. Although growth looks as if it will only be modest overall at around 1.5% in 2018, the Bank of England's August Quarterly Inflation Report forecast that growth will pick up to 1.8% in 2019, albeit there were several caveats – mainly related to whether or not the UK achieves an orderly withdrawal from the European Union in March 2019.

Some MPC members have expressed concerns about a build-up of **inflationary pressures**, particularly with the pound falling in value again against both the US dollar and the Euro. The Consumer Price Index (CPI) measure of inflation came in at 2.4% in September and is expected to fall back to the 2% inflation target over the next two years given a scenario of minimal increases in Bank Rate. The MPC has indicated Bank Rate would need to be in the region of 1.5% by March 2021 for inflation to stay on track. Financial markets are currently pricing in the next increase in Bank Rate for the second half of 2019.

As for the **labour market,** unemployment has continued at a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high in July, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 3.1%, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 0.4%, near to the joint high of 0.5% since 2009. (The previous high point was in July 2015.) Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC were right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy. However, the MPC will need to tread cautiously before increasing Bank Rate again, especially given all the uncertainties around Brexit.

In the **political arena**, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to reaching an orderly Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

USA. President Trump's massive easing of fiscal policy is fuelling a, (temporary), boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2%, (annualised rate), in quarter 1 to 4.2% in quarter 2 and 3.5%, (3.0% y/y), in quarter 3, but also an upturn in inflationary pressures. With inflation in danger of moving towards 3%, the Fed increased rates another 0.25% in September to between 2.00% and 2.25%, this being four increases in 2018. They also indicated that they expected to increase rates four more times by the end of 2019. The dilemma, however, is what to do when the temporary boost to consumption wanes, particularly as the recent imposition of tariffs on a number of countries' exports to the US, (China in particular), could see a switch to US production of some of those goods, but at higher prices. Such a scenario would invariably make any easing of monetary policy harder for the Fed in the second

half of 2019. However, a combination of an expected four increases in rates of 0.25% by the end of 2019, together with a waning of the boost to economic growth from the fiscal stimulus in 2018, could combine to depress growth below its potential rate, i.e. monetary policy may prove to be too aggressive and lead to a reverse of policy.
The tariff war between the US and China has been generating a lot of heat during 2018, but it is not expected that the current level of actual action would have much in the way of a significant effect on US or world growth. However, there is a risk of escalation.

Eurozone. Growth was 0.4% in quarters 1 and 2 but fell back to 0.2% in quarter 3, though this is probably a temporary dip. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of nearly 2% for 2018, the horizon is less clear than it seemed just a short while ago. Having halved its quantitative easing purchases of debt in October 2018 to €15bn per month, the European Central Bank has indicated it is likely to end all further purchases in December 2018. Inflationary pressures are starting to build gently so it is expected that the ECB will start to increase rates towards the end of 2019.

China. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems. Progress has been made in reducing the rate of credit creation, particularly from the shadow banking sector, which is feeding through into lower economic growth. There are concerns that official economic statistics are inflating the published rate of growth.

Japan - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. It is likely that loose monetary policy will endure for some years yet to try to stimulate growth and modest inflation.

Emerging countries. Argentina and Turkey are currently experiencing major headwinds and are facing challenges in external financing requirements well in excess of their reserves of foreign exchange. However, these countries are small in terms of the overall world economy, (around 1% each), so the fallout from the expected recessions in these countries will be minimal.

INTEREST RATE FORECASTS

The interest rate forecasts provided by Link Asset Services are predicated on an assumption of an agreement being reached on Brexit between the UK and the EU. In the event of an orderly non-agreement exit, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effect of this situation. This is also likely to cause short to medium term gilt yields to fall. If there was a disorderly Brexit, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably neutral.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed for ten years since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore over or under do increases in central interest rates.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England monetary policy** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis**, possibly **Italy**, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March of a government which has made a lot of anti-austerity noise. At the time of writing, the EU has rejected the proposed Italian budget and has demanded cuts in government spending which the Italian government has refused. The rating agencies have started on downgrading Italian debt to one notch above junk level. If Italian debt were to fall below investment grade, many investors would be unable to hold Italian debt. Unsurprisingly, investors are becoming increasingly concerned by the actions of the Italian government and consequently, Italian bond yields have risen sharply – at a time when the government faces having to refinance large amounts of debt maturing in 2019.
- Weak capitalisation of some **European banks**. Italian banks are particularly vulnerable; one factor is that they hold a high level of Italian government debt - debt which is falling in value. This is therefore undermining their capital ratios and raises the question of whether they will need to raise fresh capital to plug the gap.
- **German minority government.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD is reviewing whether it can continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as CDU party leader at her party's convention in December 2018. However, this

makes little practical difference as she is still expected to aim to continue for now as the Chancellor. However, there are five more state elections coming up in 2019 and EU parliamentary elections in May/June; these could result in a further loss of electoral support for both the CDU and SPD which could also undermine her leadership.

- **Other minority eurozone governments.** Spain, Portugal, Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile. Sweden is also struggling to form a government due to the anti-immigration party holding the balance of power, and which no other party is willing to form a coalition with.
- **Austria, the Czech Republic and Hungary** now form a strongly anti-immigration bloc within the EU while **Italy,** this year, has also elected a strongly anti-immigration government. Elections to the EU parliament are due in May/June 2019.
- Further increases in interest rates in the US could spark a **sudden flight of investment funds** from more risky assets e.g. shares, into bonds yielding a much improved yield. In October 2018, we have seen a sharp fall in equity markets but this has been limited, as yet. Emerging countries which have borrowed heavily in dollar denominated debt, could be particularly exposed to this risk of an investor flight to safe havens e.g. UK gilts.
- There are concerns around the level of **US corporate debt** which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is now rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.
- **Geopolitical risks,** especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- **Brexit** – if both sides were to agree a compromise that removed all threats of economic and political disruption.
- **The Fed causing a sudden shock in financial markets** through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of QE, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- **UK inflation,** whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Brexit timetable and process

- March 2017: UK government notified the European Council of its intention to leave under the Treaty on European Union Article 50
- March 2019: initial two-year negotiation period on the terms of exit to be followed by a proposed transitional period ending around December 2020.
- UK continues as a full EU member until March 2019 with access to the single market and tariff free trade between the EU and UK. Different sectors of the UK economy may leave the single market and tariff free trade at different times during the transitional period.
- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.
- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK could also exit without any such agreements in the event of a breakdown of negotiations.
- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.
- On full exit from the EU: the UK parliament would repeal the 1972 European Communities Act.
- The UK will then no longer participate in matters reserved for EU members, such as changes to the EU's budget, voting allocations and policies.

TREASURY MANAGEMENT SCHEME OF DELEGATION AND ROLE OF THE SECTION 151 OFFICER

1. Council

- Approval of annual strategy, mid-year report and outturn report

2. Audit and Standards Committee

- Receipt, review and recommendation to Council of quarterly monitoring reports
- Receipt, review and recommendation to Council of reports on treasury strategy, policy and activity

3. Section 151 Officer

- Reviewing the treasury management policy, procedures, strategy and making recommendations to the Audit and Standards Committee;
- Approving the selection of external service providers and agreeing terms of appointment;
- Submitting regular treasury management strategy reports;
- Receiving and reviewing management information reports;
- Reviewing the performance of the treasury management function;
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- Ensuring the adequacy on internal audit and liaising with external audit;
- Treasury management/capital and revenue financial implications of the Capital Strategy
- Preparation of a capital strategy to include capital expenditure, capital financing, and treasury management, with a long term timeframe
- Ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- Ensuring that due diligence has been carried out on all investments and is in accordance with the risk appetite of the authority.

Deloitte.

STROUD DISTRICT COUNCIL

Planning report to the Audit and Standards Committee for the year ending 31 March 2019

January 2019

Deloitte Confidential: Public Sector - For Approved External Use

Agenda Item 12

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Introduction

The key messages in this report:

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

We have pleasure in presenting our planning report to the Audit and Standards Committee (the Committee) for the 2019 audit of Stroud District Council (the Council). We would like to draw your attention to the key messages of this paper:

Audit Plan	• We are developing our understanding of the Council through discussion with management and review of relevant documentation from across the Council. • Based on these procedures, we have developed this plan in collaboration with the Council to ensure that we provide an effective audit service that meets your expectations and focuses on the most significant areas of importance and risk to the Council.
Key risks	• We have taken an initial view as to the significant audit risks that the Council faces. These are presented as a summary dashboard on page 11.
Regulatory change	• Our audit is carried out under the Code of Audit Practice issued by the National Audit Office (NAO). • We will update Management and the Committee with sector and technical updates as they arise.

Responsibilities of the Audit and Standards Committee

Helping you fulfil your responsibilities

Why do we interact with the Audit and Standards Committee?

As a result of regulatory change in recent years, the role of the Audit and Standards Committee has significantly expanded. We set out here a summary of the core areas of Audit and Standards Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit and Standards Committee in fulfilling its remit.

To communicate audit scope

To provide timely and relevant observations

To provide additional information to help you fulfil your broader responsibilities

Oversight of external audit

- At the start of each annual audit cycle, ensure that the scope of the external audit is appropriate.

Integrity of reporting

- Impact assessment of key judgements and level of management challenge.

- Review of external audit findings, key judgements, level of misstatements.

- Assess the quality of the internal team, their incentives and the need for supplementary skillsets.

- Assess the completeness of disclosures, including consistency with disclosures on business model and strategy and, where requested by the Council, provide advice in respect of the fair, balanced and understandable statement.

Internal controls and risks

- Review the internal control and risk management systems (unless expressly addressed by separate Council risk committee).

- Explain what actions have been, or are being taken to remedy any significant failings or weaknesses.

Oversight of internal audit

- Monitor and review the effectiveness of the internal audit activities.

Whistle-blowing and fraud

- Ensure that appropriate arrangements are in place for the proportionate and independent investigation of any concerns that are raised by staff in connection with improprieties.

Our audit explained

We tailor our audit to your Council and your strategy

Identify changes in your Council and environment. We have spent time with management understanding the current year matters and prepared our risk assessment for the audit, we will continue to keep this under review throughout the audit process.

Scoping

We anticipate our scope to be in line with the Code of Audit Practice issued by the NAO.

We will not scope out any significant items or items that would have a material impact on the financial statements.

In our final report

In our final report to you we will conclude on the significant audit risks identified in this paper and report to you our other findings.

1. Identify Changes in your business and environment
2. Determine materiality
3. Scoping
4. Significant risk assessment
5. Conclude on significant risk areas
6. Other findings
7. Our audit report

Determine materiality

We have determined a materiality of £1,790k. This is based on 2% of gross expenditure. We will report to you any misstatements above £89k. We will report to you misstatements below this threshold if we consider them to be material by nature. For further detail on materiality, see page 9.

Significant risk assessment

We will identify significant audit risks in relation to the Council and plan our audit response to meet these risks (Page 11 onwards).

Quality and Independence

We confirm all Deloitte network firms are independent of the Council. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.

Scope of work and approach

Scope: we have three key areas of responsibility under the Audit Code of Practice

Financial statements

We will conduct our audit in accordance with International Standards on Auditing (UK) ("ISA UK") as adopted by the UK Auditing Practices Board ("APB") and Code of Audit Practice issued by the NAO. The Council will prepare its accounts under the Code of Practice on Local Council Accounting ("the Code") issued by CIPFA and Local Authority (Scotland) Accounts Authority Committee (LASAAC).

We are also required to issue a separate assurance report to the NAO on the Council's separate return required for the purposes of its audit of the Whole of Government Accounts and departmental accounts.

Annual Governance Statement

We are required to consider the completeness of the disclosures in the Annual Governance Statement in meeting the relevant requirements and identify any inconsistencies between the disclosures and the information that we are aware of from our work on the financial statements and other work.

As part of our work we will review the annual report and compare with other available information to ensure there are no material inconsistencies. We will also review any reports from other relevant regulatory bodies and any related action plans developed by the Council.

Value for Money conclusion

We are required to satisfy ourselves that the Council has made proper arrangements for securing financial resilience and economy, efficiency and effectiveness in its use of resources.

To perform this work, we are required to:

- plan our work based on consideration of the significant risks of giving a wrong conclusion; and
- carry out as much work as is appropriate to enable us to give a safe conclusion on the arrangements to secure VFM.

Our work therefore includes a detailed risk assessment based on the risk factors identified in the course of our audits. This is followed by specific work focussed on the risks identified. We have identified the Multi-Service contract with UBICO an area of audit interest in relation to the efficiency measures in place as there is a risk that they may not be effective and that the contract is not maintained at a cost which can be sustained by the Council's current reserve levels.

We then provide a conclusion on these arrangements as part of our final reporting to you.

Scope of work and approach
Our approach

Liaison with internal audit

The Auditing Standards Board's version of ISA UK 610 "Using the work of internal auditors" prohibits use of internal audit to provide "direct assistance" to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

We will review their reports and meet with them where necessary to discuss their work. We will review the work plan for internal audit, and where they have identified specific material deficiencies in the control environment we consider adjusting our testing so that the audit risk is covered by our work.

Using these discussions to inform our risk assessment, we can work together with internal audit where necessary to develop an approach that avoids inefficiencies and overlaps, therefore avoiding any unnecessary duplication of audit requirements on the Council's staff.

Approach to controls testing

Our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D & I").

The results of our work in obtaining an understanding of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

Promoting high quality reporting to stakeholders

We view the audit role as going beyond reactively checking compliance with requirements: we seek to provide advice on evolving good practice to promote high quality reporting.

We recommend the Council complete the Code checklist during drafting of their financial statements.

We would like the opportunity to review a skeleton set of financial statements and an early draft of the annual report ahead of the typical reporting timetable to feedback any comments to management.

Value for Money and other reporting

The Code of Audit Practice requires us to report by exception in our audit report any matters that we identify that indicate the Council has not made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Obtain an understanding of the Council and its environment including the identification of relevant controls.

Identify risks and controls that address these risks.

Carry out "design and implementation" work on relevant controls.

Design and perform a combination of substantive analytical procedures and tests of details that are most responsive t the assessed risks.

Continuous communication and reporting

Planned timing of the audit

Planning	Interim audit	Year end fieldwork	Reporting
• Planning meetings to inform risk assessment and identify judgemental accounting issues. • Update understanding of key business cycles and changes to financial reporting. • Document design of key controls. • Review of key Council documents including Council minutes. • Review of internal audit reports completed so far.	• Document implementation of key controls. • Review of Council quarter 3 performance / events. • Substantive testing of limited areas including fixed asset additions, expenditure, payroll, certain areas of grant income and precepts. • Planning work for value for money responsibilities. • Review of Council accounting policies. • Review of internal audit reports completed so far.	• Review of Council quarter 4 performance / events. • Substantive testing of all areas. • Finalisation of work in support of value for money responsibilities. • Detailed review of annual accounts and report, including Annual Governance Statement. • Review of final internal audit reports and opinion. • Completion of testing on significant audit risks.	• Final Audit and Standards Committee meeting. • Issue final Audit and Standards Committee paper. • Issue audit report. • Issue Annual Audit Letter.
2018/19 Audit planning	Planning report to the Committee	Final report to the Committee	
October - December	**January - March**	**June**	**July**

Ongoing communication and feedback

Materiality

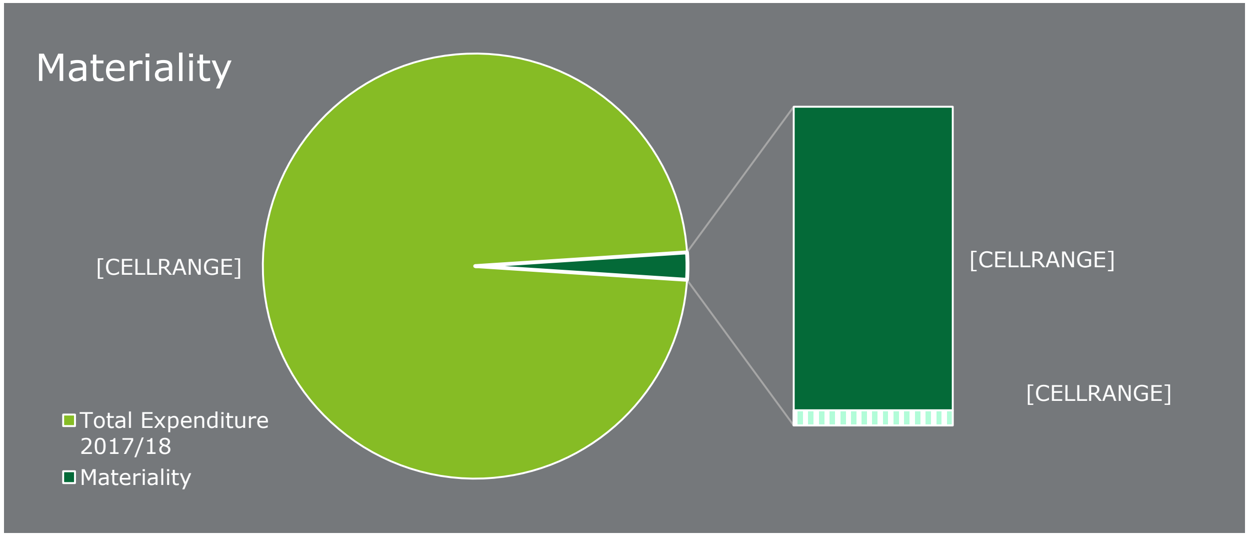
Our approach to materiality

Basis of our materiality benchmark

- The audit partner has determined materiality as £1,790k, based on professional judgement, the requirement of auditing standards and the financial measures most relevant to users of the financial statements.
- We have used 2% of Gross Expenditure up to the surplus/deficit on provision of services based on the 2017/18 audited accounts as the benchmark for determining materiality. We will re-assess this position at interim and update materiality according to the year-end position.

Reporting to those charged with governance

- We will report to you all misstatements found in excess of £89k.
- We will report to you misstatements below this threshold if we consider them to be material by nature.



Although materiality is the judgement of the audit partner, the Audit and Standards Committee must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.

Our risk assessment process

We consider a number of factors when deciding on the significant audit risks. These factors include:

- the significant risks and uncertainties previously reported in the annual report and financial statements;
- the IAS 1 critical accounting estimates previously reported in the annual report and financial statements;
- our assessment of materiality;
- the changes that have occurred in the business and the environment it operates in since the last annual report and financial statements; and
- the Council's actual and planned performance on financial and other relevant metrics.

Principal risk and uncertainties

- Budget savings
- Business rates
- Waste Management
- Workforce planning
- Business continuity
- Economic environment
- BREXIT

Changes in your business and environment

- No significant changes

IAS 1 Critical accounting estimates

- Useful lives of assets
- Pension liability
- Arrears

Significant Audit Risks

Significant Audit Risk Dashboard

Risk	Material	Fraud risk	Planned approach to controls	Level of management judgement	Expected to be included in our report to the Audit and Standards Committee	Slide no.
Completeness of Expenditure	✓	✓	D+I	⚠	✓	12
Management Override of Controls	✓	✓	D+I	⚠	✓	13

D+I: Assessing the design and implementation of key controls

Low Level of Judgement ⚠

Medium Level of Judgement ⚠

High Level of Judgement ⚠

Significant Audit Risks

Risk 1 – Completeness of Expenditure

Risk identified	Under UK auditing standards, there is a presumed risk in respect of revenue recognition due to fraud. We have rebutted this risk, and instead believe that the fraud risk lies with the completeness of expenditure and completeness and valuation of accruals. For 2018/19, the Council approved a budget with a net cost of service of £16.9m. As at September 2018, the Council reported a forecast overspend of £498k, but that they are working towards a balanced position which was achieved in 2017/18. Given the Council's current budget position and the pressures across the whole of the public sector, there is an inherent risk that the year-end position could be manipulated by omitting or misstating accruals and provisions.
Our response	Our work in this area will include the following: We will obtain an understanding of the design and implementation of the key controls in place in relation to recording completeness of accruals and provisions. We will perform focused testing in relation to the completeness of expenditure including a detailed review of accruals and provisions; As part of this focused testing we will challenge any assumptions made in relation to year-end accruals and provisions; and In addition, we will review the year on year movement in accruals and provisions and will investigate any significant downwards movements.

Significant Audit Risks
Risk 2 – Management Override of Controls

Risk identified	In accordance with ISA 240 (UK) management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Council's controls for specific transactions. The key judgments in the financial statements are those which we have selected to be the significant audit risks and areas of audit interest: completeness of expenditure and valuation of the Council's estate and pension liability. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.
Our response	In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk: We will test the design and implementation of key controls in place around journal entries and management estimates; We will risk assess journals and select items for detailed testing. The journal entries will be selected using computer-assisted profiling based on areas which we consider to be of increased interest; We will test the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting; We will review accounting estimates for biases that could result in material misstatements due to fraud; and, We will obtain an understanding of the business rationale of significant transactions that we become aware of that are outside of the normal course of business for the Council, or that otherwise appear to be unusual, given our understanding of the entity and its environment.

Other Areas of Audit Interest
Pensions Liability Valuation

Risk identified	The Council are part of the Local Government Pension Scheme operated by Gloucestershire County Council. The Council recognised a combined pensions liability of £131,246k at 31 March 2017 which decreased to £132,942k as at 31 March 2018. The Code requires that their year end carrying value should reflect the appropriate fair value at that date. Hymans Robertson act as the Council's expert actuary, who produce a report outlining the liability and disclosures required for each council.
Our response	We carry out a separate, detailed risk assessment of each of the individual components of the calculation (for example market assumptions, membership data, assets and liabilities) using a developed methodology which takes into account factors such as an assessment of the actuary. We scope our work, including the nature and extent of our actuarial specialists involvement, in a way which responds to this detailed risk assessment. Should our risk assessment change our overall audit approach in respect of testing pensions, we will notify the Committee. We will confirm the disclosure of the pension figures in the statement of accounts agree with those provided by the scheme actuary.

Other areas of audit interest
Value for Money

Risk identified	Under the NAO Code, we are required to report whether, in our opinion: the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The Council's projected overspend in part relates to the Multi-Service contract with UBICO, the Council's waste management provider. The contract in place allows UBICO to recharge costs incurred rather than a fixed amount. Since the contract commenced in 2016 costs have escalated beyond budget due to the uptake in the Council's recycling scheme and the associated costs. The contract is expected to cost £5,640k in 2018/19 (£5,473k in 2017/18) and at 31 August 2018, the budget in relation to this contract is projecting a £784k overspend. Efficiency measures were implemented in July 2018 which are expected to create annual savings of £200k. There is a risk that efficiency measures may not be effective and that the contract is not maintained at a cost which can be sustained by the Council's current reserve levels.
Our response	Our work in this area will include: • A full understanding of the UBICO contract and efficiency measures in place and their related outcomes; • High level interviews with senior operational staff and internal audit as required; • Review of the Authority's draft Annual Report, Annual Governance Statement and Council papers and minutes; and • Consideration of the Council's financial results.

Other Areas of Audit Interest
Property Valuation

Risk identified	The Council held £308,097k of property assets (land and buildings) at 31 March 2017 which increased to £319,950k as at 31 March 2018. The increase was largely due to upwards revaluations as a result of the Council undertaking a valuation exercise during 2017/18. The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years. There is therefore a risk that that the carrying value of assets not included in the Council's revaluation process in the current year materially differ from the year end fair value. The property valuation is an area of audit interest as even though the year-end valuations are material they are performed by an independent expert on assets of a unique nature, whereby the valuations should not materially change year-on-year.
Our response	We will understand how the Council assures itself that there are no material impairments or changes in value for the assets not covered by the annual valuation; We will review any revaluations performed in the year, assessing whether they have been performed in a reasonable manner, on a timely basis and by suitably qualified individuals; We will use our valuation specialists (Deloitte Real Estate) where considered appropriate, to support our review and challenge the appropriateness of the assumptions used in the year-end valuation of the Council's Land and Buildings; and We will test a sample of revalued assets and re-perform the calculation assessing whether the movement has been recorded through the correct line of the accounts.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to establish our respective responsibilities in relation to the financial statements audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope; and
- Key regulatory and corporate governance updates, relevant to you.

Use of this report

This report has been prepared for the Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

We welcome the opportunity to discuss our report with you and receive your feedback.

What we don’t report

As you will be aware, our audit is not designed to identify all matters that may be relevant to the Council.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Other relevant communications

We will update you if there are any significant changes to the audit plan.

Deloitte LLP

Cardiff, January 2019

Appendices

Fraud responsibilities and representations

Responsibilities explained

Your Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Our responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified the risk of fraud in completeness of expenditure, and management override of controls as a key audit risk for your organisation.

Fraud Characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We will request the following to be stated in the representation letter signed on behalf of the Council:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
  (i) management;
  (ii) employees who have significant roles in internal control; or
  (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Fraud responsibilities and representations

Inquiries

We will make the following inquiries regarding fraud:

Management:

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.
- We plan to involve management from outside the finance function in our inquiries.

Internal audit

- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.

Those charged with governance

- How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of those charged with governance on the most significant fraud risk factors affecting the entity.

Fees and Independence

The professional fees expected to be charged by Deloitte LLP in the period from 1 April 2018 to 31 March 2019 are as follows:

	Current year £ (excluding VAT)
Financial statement audit including Whole of Government Accounts and procedures in respect of Value for Money assessment	40,021
Total audit	40,021
Total fees	**40,021**

We confirm all Deloitte network firms are independent of the Council. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority

Our approach to quality

AQR team report and findings

We maintain a relentless focus on quality and our quality control procedures and continue to invest in and enhance our overall firm Audit Quality Monitoring and Measuring programme.

In June 2018 the Financial Reporting Council ("FRC") issued individual reports on each of the eight largest firms, including Deloitte, on Audit Quality Inspections which provides a summary of the findings of its Audit Quality Review ("AQR") team for the 2017/18 cycle of reviews.

We take the findings of the AQR seriously and we listen carefully to the views of the AQR and other external audit inspectors. We remediate every finding regardless of its significance and seek to take immediate and effective actions, not just on the individual audits selected but across our entire audit portfolio. We are committed to continuously improving all aspects of audit quality in order to provide consistently high quality audits that underpin the stability of our capital markets.

We have improved the speed by which we communicate potential audit findings, arising from the AQR inspections and our own internal reviews to a wider population, however, we need to do more to ensure these actions are embedded. In order to achieve this we have launched a more detailed risk identification process and our InFlight review programme. This programme is aimed at having a greater impact on the quality of the audit before the audit report is signed. Consistent achievement of quality improvements is our aim as we move towards the AQR's 90% benchmark.

All the AQR public reports are available on its website. https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports

The AQR's 2017/18 Audit Quality Inspection Report on Deloitte LLP

"The overall results of our reviews of the firm's audits show that 76% were assessed as requiring no more than limited improvements, compared with 78% in 2016/17. Of the FTSE 350 audits we reviewed this year, we assessed 79% as achieving this standard compared with 82% in 2016/17. We are concerned at the lack of improvement in inspection results. The FRC's target is that at least 90% of these audits should meet this standard by 2018/19."

"Where we identified concerns in our inspections, they related principally to aspects of group audit work, audit work on estimates and financial models, and audit work on provisions and contingencies. During the year, the firm has continued to develop the use of "centres of excellence", increasing the involvement of the firm's specialists in key areas of the audit. We have no significant issues to report this year in most of the areas we reported on last year."

"The firm has revised its policies and procedures in response to the revised Ethical and Auditing Standards. We have identified some examples of good practice, as well as certain areas for improvement."

The firm has enhanced its policies and procedures in the following areas:

- Increased use of centres of excellence ("CoE") involving the firm's specialists, including new CoEs focusing on goodwill impairment (established in response to previous inspection findings) and corporate reporting, to address increasing complexity of financial reporting.
- Further methodology updates and additional guidance issued to the audit practice including the audit approach to pension balances, internal controls, data analytics, group audits and taxation.
- A new staff performance and development system was implemented with additional focus on regular timely feedback on performance, including audit quality.
- Further improvements to the depth and timeliness of root cause analysis on internal and external inspection findings.

Our key findings in the current year requiring action by the firm:

- Improve the group audit team's oversight and challenge of component auditors.
- Improve the extent of challenge of management's forecasts and the testing of the integrity of financial models supporting key valuations and estimates.
- Strengthen the firm's audit of provisions and contingencies.

Review of firm-wide procedures. The firm should:

- Enhance certain aspects of its independence systems and procedures.