

22 January 2018

AUDIT AND ETHICS COMMITTEE – 30 JANUARY 2018

A meeting of the Audit and Ethics Committee will be held at 5.30pm on Tuesday 30 January 2018 in Committee Room 1 at the Town Hall, Rugby.

Adam Norburn
Executive Director

NOTE A private meeting with the Chief Internal Auditor will be held at the end of the formal meeting.

A G E N D A

PART 1 – PUBLIC BUSINESS

1. Minutes

To confirm the minutes of the meeting held on 27 November 2017.

2. Apologies

To receive apologies for absence from the meeting.

3. Declarations of Interest

To receive declarations of:

(a) non-pecuniary interests as defined by the Council's Code of Conduct for Councillors;

(b) pecuniary interests as defined by the Council's Code of Conduct for Councillors; and

(c) notice under Section 106 Local Government Finance Act 1992 – non-payment of Community Charge or Council Tax.

Note: Members are reminded that they should declare the existence and nature of their non-pecuniary interests at the commencement of the meeting (or as soon as the interest becomes apparent). If that interest is a pecuniary interest the Member must withdraw from the room unless one of the exceptions applies.

Membership of Warwickshire County Council or any Parish Council is classed as a non-pecuniary interest under the Code of Conduct. A Member does not need to declare this interest unless the Member chooses to speak on a matter relating to their membership. If the Member does not wish to speak on the matter, the Member may still vote on the matter without making a declaration.

4. Treasury Management Strategy 2018/19 – 2020/21
5. Approval of Accounts
6. Annual Governance Statement Progress Update
7. 2017/18 Internal Audit Plan – Progress Update
8. Development of Internal Audit Plan 2018/19
9. External Audit Plan 2017/18 (report to follow)
10. Motion to Exclude the Public under Section 100(A)(4) of the Local Government Act 1972

To consider passing the following resolution:

“Under Section 100(A)(4) of the Local Government Act 1972 the public be excluded from the meeting for the following items on the ground that they involve the likely disclosure of information defined in paragraphs 1, 2 and 3 of Schedule 12A of the Act.”

PART 2 – EXEMPT INFORMATION

1. Whistle Blowing Incidents – Standing Item – to receive any updates
2. Fraud and Corruption Issues – Standing Item – to receive any updates

Any additional papers or relevant documents for this meeting can be accessed here via the website.

Membership of the Committee:

Mr P Dudfield (Chairman), Mr J Eves (Vice-Chairman), Councillors Miss Lawrence, Mistry, Pacey-Day and Roodhouse

If you have any general queries with regard to this agenda please contact Veronika Beckova, Democratic Services Officer (01788 533591 or e-mail veronika.beckova@rugby.gov.uk). Any specific queries concerning reports should be directed to the listed contact officer.

If you wish to attend the meeting and have any special requirements for access please contact the Democratic Services Officer named above.

AGENDA MANAGEMENT SHEET

| | |
|--------------------------------------|---|
| Report Title: | Treasury Management Strategy 2018/19 – 2020/21 |
| Name of Committee: | Audit and Ethics Committee |
| Date: | 30 January 2018 |
| Report Director: | Head of Corporate Resources and Chief Financial Officer |
| Ward Relevance: | All |
| Prior Consultation: | Treasury Management Strategy 2017/18 – 2019/20 Cabinet 6th February 2017 |
| Contact Officer: | Mannie Ketley, Head of Corporate Resources and Chief Financial Officer, Tel: 01788 533416 |
| Public or Private: | Public |
| Corporate Priorities: | All |
| Statutory/Policy Background: | The Council's Treasury Management activities are strictly regulated by the Local Government Act 2003 and the CIPFA Code of Practice on Treasury Management. |
| Summary: | The report sets out the expected treasury activities and shows the Council's treasury management indicators for 2018/19. |
| Financial Implications: | The treasury management indicators are set to ensure that the Council is guided into making prudent decisions on treasury management activities. |
| Risk Management Implications: | There are no risk management implications arising from this report. |
| Environmental Implications: | There are no environmental implications arising from this report. |
| Legal Implications: | There are no legal implications arising from this report. |
| Equality and Diversity: | There are no environmental implications arising from this report. |

Options: N/A

Recommendation: (1) the report be noted; and
(2) the monitoring and the review of the Treasury Management indicators be agreed.

Reasons for Recommendation: To comply with the Code of Practice

Audit and Ethics Committee – 30 January 2018

Treasury Management Strategy 2018/19 – 2020/21

Report of the Head of Corporate Resources and Chief Financial Officer

Recommendation

- (1) the report be noted; and
- (2) the monitoring and the review of the Treasury Management indicators be agreed.

1. INTRODUCTION

In February 2012, the Council adopted the CIPFA Treasury Management in the Public Services: Code of Practice 2011 edition, which requires the Council to approve a treasury management strategy before the start of each financial year.

In addition, the Department for Communities and Local Government (CLG) issued revised guidance on local authority investments in March 2010 that requires the Council to approve an investment strategy before the start of each financial year.

This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the CLG Guidance. The strategy for 2018/19 covers two main areas:

Capital issues

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

2. THE CAPITAL PRUDENTIAL INDICATORS 2018/19 – 2020/21

The Council's capital expenditure plans are the key driver of treasury management activity. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.1 Capital Expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members will be asked to formally approve the following forecasts at respective rent setting and Council tax setting at Council in February:

| Capital expenditure £'000 | 2016/17 Actual | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate | 2020/21 Estimate |
|------------------------------|-------------------|---------------------|---------------------|---------------------|---------------------|
| General Fund | 4,092 | 4,799 | 2,017 | 2,001 | 1,996 |
| HRA | 6,325 | 14,148 | 2,889 | 2,789 | 2,729 |
| Total | 10,465 | 18,947 | 4,906 | 4,790 | 4,725 |

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a borrowing need.

| Capital expenditure £'000 | 2016/17 Actual | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate | 2020/21 Estimate |
|--|-------------------|---------------------|---------------------|---------------------|---------------------|
| Total | 10,465 | 18,947 | 4,906 | 4,790 | 4,725 |
| Financed by: | | | | | |
| Capital receipts | 267 | 1,926 | 506 | 506 | 506 |
| Capital grants | 822 | 589 | 589 | 589 | 589 |
| Capital reserves | 5,301 | 8,793 | 1,114 | 1,014 | 954 |
| Revenue | 1,280 | 4,573 | 835 | 1,543 | 1,538 |
| Net financing need for the year | 2,795 | 3,066 | 1,862 | 1,138 | 1,138 |

2.2 The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life. The Council is asked to approve the CFR projections below:

| £'000 | 2016/17 Actual | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate | 2020/21 Estimate |
|--------------------------------------|-------------------|---------------------|---------------------|---------------------|---------------------|
| Capital Financing Requirement | | | | | |
| CFR – General Fund | 24,998 | 26,346 | 26,279 | 25,322 | 24,411 |
| CFR – HRA | 61,632 | 56,710 | 50,814 | 44,011 | 36,842 |
| Total CFR | 86,630 | 83,056 | 77,093 | 69,333 | 61,253 |
| Movement in CFR | -4,873 | -3,574 | -5,963 | -7,760 | -8,080 |

| Movement in CFR represented by | | | | | |
|--|-------|-------|-------|-------|-------|
| Net financing need for the year (above) | 2,795 | 3,066 | 1,862 | 1,138 | 1,138 |

| | | | | | |
|--|---------------|---------------|---------------|---------------|---------------|
| Less MRP/VRP and other financing movements | -7,668 | -6,640 | -7,825 | -8,898 | -9,218 |
| Movement in CFR | -4,873 | -3,574 | -5,963 | -7,760 | -8,080 |

2.3 Minimum revenue provision (MRP) policy statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP). CLG regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision.

The Council is recommended to approve the following MRP Statement for financial year 2018/19:

| |
|--|
| <p>For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, (<i>central government support for local authority capital expenditure is the amount of expenditure towards which revenue support grant will be paid to a local authority on the cost of its borrowing</i>) MRP will be charged on a 2% straight line basis.</p> <p>From 1 April 2008 for all unsupported borrowing (<i>capital expenditure for which no direct central government support is available and is undertaken with reference to the Prudential Code</i>) (including PFI and finance leases) the MRP policy will be:</p> <ul style="list-style-type: none"> • Asset life method – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction). |
|--|

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made.

2.4 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an on-going impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day to day cash flow balances.

| Year End Resources £'000 | 2016/17 Actual | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate | 2020/21 Estimate |
|---|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| General Fund balances | 2,159 | 2,266 | 2,266 | 2,266 | 2,266 |
| HRA Revenue balances (inc Major Repairs Allowance) | 3,894 | 3,874 | 5,713 | 8,339 | 8,339 |
| Capital receipts reserve# | 7,921 | 9,321 | 8,644 | 9,044 | 9,444 |
| Capital grants unapplied | 689 | 689 | 689 | 689 | 689 |
| Earmarked reserves / other balances | 18,038 | 15,058 | 13,378 | 11,698 | 10,018 |

| | | | | | |
|---|---------------|---------------|---------------|---------------|---------------|
| Provisions | 2,064 | 2,064 | 2,064 | 2,064 | 2,064 |
| Total core funds | 34,765 | 33,272 | 32,754 | 34,100 | 32,840 |
| Working capital* | -7,313 | -500 | -500 | -500 | -500 |
| Under (-) /over borrowing (see page 7) | 14,692 | 15,266 | -6,571 | -20,811 | -27,231 |
| Expected investments | 42,144 | 48,038 | 25,683 | 12,789 | 5,109 |

The Local Government Finance Act 2003 prohibits the use of capital resources to fund revenue expenditure.

*Working capital balances shown are estimated as at year-end; these may be higher mid-year

2.5 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

Ratio of financing costs to net revenue stream

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure (as per Section 1.2) by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

| % | 2016/17 Actual | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate | 2020/21 Estimate |
|--------------|-------------------|---------------------|---------------------|---------------------|---------------------|
| General Fund | 12 | 15 | 17 | 17 | 18 |
| HRA | 46 | 37 | 43 | 35 | 34 |

The estimates of financing costs include current commitments and the proposals in the 2018/19 General Fund and HRA budget reports.

General Fund

Funding the current and proposed capital programme has taken up an increasing proportion of the Council's General Fund finances over the medium term, rising to 18% of the revenue budget in 2020/21 or 50% more than in 2016/17.

HRA

The higher ratio of financing costs within the HRA reflects the HRA business plan strategy to repay debt associated with the self-financing settlement of 2012/13.

Estimate of the incremental (additional year-on-year) impact of capital investment decisions on council tax

This indicator identifies the revenue costs associated with proposed changes to the three-year capital programme to be presented to Council compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three-year period.

| £ | 2016/17 Actual | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate | 2020/21 Estimate |
|-----------------------------|-------------------|---------------------|---------------------|---------------------|---------------------|
| Council tax - band D | 0.75 | 9.12 | -1.86 | -7.48 | -7.69 |

The reduction in the incremental impact on Band D Council tax from 2017/18 onwards reflects the forecast increase in investment returns relative to the increase in borrowing interest costs during that period, and the revenue ongoing savings/income generation anticipated from certain assets (Queens Diamond Jubilee Leisure Centre, Rainsbrook Crematorium, and Rugby Hall of Fame.)

Estimates of the incremental impact of capital investment decisions on housing rent levels

Similar to the council tax calculation, this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in this budget report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels.

| £ | 2016/17 Actual | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate | 2020/21 Estimate |
|-----------------------------------|-------------------|---------------------|---------------------|---------------------|---------------------|
| Weekly housing rent levels | 63.10 | -14.11 | 9.16 | 8.53 | 3.23 |

The movement in the incremental impact on housing rent levels within the HRA reflects the scheduling within the HRA business plan strategy to repay debt associated with the self-financing settlement of 2012/13. The movement between 2015/16 and 2016/17 in particular shows the impact upon rents of diverting resources from debt repayment in 2014/15 to contributions towards capital expenditure in 2015/16 and back to debt repayment in 2016/17. The subsequent decrease in 2017/18 reflects debt restructuring which is forecast in light of the government policy to reduce rents by 1% per annum until 2019/20.

3. BORROWING

The capital expenditure plans set out in Section 1.2 provide a summary of the draft General Fund and HRA capital programmes. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current portfolio position

The Council's treasury portfolio position at 31 March 2017, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

| £'000 | 2016/17 Actual | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate | 2020/21 Estimate |
|--|-------------------|---------------------|---------------------|---------------------|---------------------|
| External Debt | | | | | |
| Debt at 1 April | -96,221 | -101,322 | -98,322 | -70,522 | -48,522 |
| Expected change in Debt | -5,101 | 3,000 | 27,800 | 22,000 | 14,500 |
| Actual gross debt at 31 March | -101,322 | -98,322 | -70,522 | -48,522 | -34,022 |
| The Capital Financing Requirement (CFR) | 86,630 | 83,056 | 77,093 | 69,333 | 61,253 |
| Under / (over) borrowing | -14,692 | -15,266 | 6,571 | 20,811 | 27,231 |

The Council plans to move to an under-borrowed position over the period of the medium term financial plan through the use of internal resources, subject to interest rate movements and re-financing opportunities. More details are contained within the Borrowing Strategy section of this report on page 9.

Within the prudential indicators there are a number of 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 2017/18 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Head of Corporate Resources and Chief Financial Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.2 Treasury Indicators: limits to borrowing activity

The operational boundary

This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

| £'000 | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate | 2020/21 Estimate |
|----------------------|---------------------|---------------------|---------------------|---------------------|
| Operational boundary | 101,000 | 85,000 | 80,000 | 75,000 |

The authorised limit for external debt

A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all

councils' plans, or those of a specific council, although this power has not yet been exercised.

2. The Council is asked to approve the following authorised limit:

| £'000 | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate | 2020/21 Estimate |
|------------------|---------------------|---------------------|---------------------|---------------------|
| Authorised limit | 111,000 | 95,000 | 90,000 | 85,000 |

Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime. This limit is currently:

| | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate | 2020/21 Estimate |
|---------------------|---------------------|---------------------|---------------------|---------------------|
| HRA debt cap | 83,342 | 83,342 | 83,342 | 83,342 |
| HRA CFR | 56,710 | 50,814 | 44,011 | 36,842 |
| HRA headroom | 26,632 | 32,528 | 39,331 | 46,500 |

3.3 Prospects for interest rates

The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives their central view.

| Annual Average % | Bank Rate % | PWLB Borrowing Rates % (including certainty rate adjustment) | | |
|---------------------|----------------|---|---------|---------|
| | | 5 year | 25 year | 50 year |
| Mar 2018 | 0.50 | 1.60 | 2.90 | 2.60 |
| Jun 2018 | 0.50 | 1.60 | 3.00 | 2.70 |
| Sep 2018 | 0.50 | 1.70 | 3.00 | 2.80 |
| Dec 2018 | 0.75 | 1.80 | 3.10 | 2.90 |
| Mar 2019 | 0.75 | 1.80 | 3.20 | 2.90 |
| Jun 2019 | 0.75 | 1.90 | 3.20 | 3.00 |
| Sep 2019 | 0.75 | 1.90 | 3.30 | 3.00 |
| Dec 2019 | 1.00 | 2.00 | 3.40 | 3.10 |
| Mar 2020 | 1.00 | 2.10 | 3.50 | 3.20 |
| Jun 2020 | 1.00 | 2.10 | 3.50 | 3.30 |
| Sep 2020 | 1.25 | 2.20 | 3.60 | 3.30 |
| Dec 2020 | 1.25 | 2.30 | 3.60 | 3.40 |
| Mar 2021 | 1.25 | 2.30 | 3.60 | 3.40 |

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

3.4 Borrowing strategy

The Council will move to an under-borrowed position over the period of the medium-term financial plan. This means that the total capital borrowing need (the Capital Financing Requirement), will not have been fully funded with loan debt as cash supporting the

Council's reserves, balances and cash flow is used as a temporary measure. This strategy is prudent whilst investment returns remain low and to mitigate counterparty risk. Against this background and the risks within the economic forecast, caution will be adopted with the 2018/19 treasury operations. The Head of Corporate Resources and Chief Financial Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.*
- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in US interest rates, or in world economic activity or a sudden increase in inflationary risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.*

3.5 Treasury management limits on activity

There are three debt- related treasury activity limits. Their purpose is 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 are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates; and
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

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

| £'000 | 2018/19 | 2019/20 | 2020/21 |
|--|--------------|--------------|--------------|
| Interest rate exposures | | | |
| | Upper | Upper | Upper |
| Limits on fixed interest rates based on net debt | 95,000 | 90,000 | 85,000 |
| Limits on variable interest rates based on net debt | 0 | 0 | 0 |

The limit on fixed interest rates (investments and borrowing) creates sufficient headroom for certainty around cash flows.

The limit on variable interest rates allows for flexibility in the event of significant movements in interest rates, but is set at zero to ensure that the level of borrowing undertaken at variable rates at any point cannot exceed that of investments.

| Maturity structure of fixed interest rate borrowing | | |
|--|--------------|--------------|
| | Lower | Upper |
| Under 12 months | 0% | 50% |
| 12 months to 2 years | 0% | 50% |
| 2 years to 5 years | 0% | 60% |
| 5 years to 10 years | 0% | 60% |
| 10 years to 20 years | 0% | 75% |
| 20 years to 30 years | 0% | 75% |
| 30 years to 40 years | 0% | 75% |
| 40 years to 50 years | 0% | 75% |

The table outlines the limits for consideration regarding maturities when additional borrowing or refinancing is undertaken in year and is designed to protect the Council from exposure to refinancing risk in the future.

3.6 Policy on borrowing in advance of need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.7 Debt rescheduling

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to Council at the earliest meeting following its action.

4. INVESTMENTS

4.1 Investment /Creditworthiness policy

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second and then return.

In accordance with guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council has clearly stipulated in Appendix A 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 these reflect in the eyes of each agency. Ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

Furthermore, 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 on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects 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) and overlay that information on top of the credit ratings. This is fully integrated into the credit methodology provided by the Council's treasury management advisors, Link Asset Services. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.

The intention of the strategy is to provide security of investment and minimisation of risk. Investment instruments identified for use in the financial year are listed in **Appendix A** under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set to £5m per institution and limited to £5m per financial group (e.g. RBS Group, Lloyds Banking Group).

Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data and market information, information on government support for banks and the credit ratings of that supporting government.

4.2 Investment strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Investment returns expectations. Bank Rate is forecast to stay flat at 0.50% until quarter 4 2018 and not to rise above 1.25% by quarter 1 2021. Bank Rate forecasts for financial year ends (March) are:

- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.25%

The overall balance of risks to these forecasts is currently skewed to the upside and are dependent on how strong GDP growth turns out, how quickly inflation pressures rise and how quickly the Brexit negotiations move forward positively.

The budgeted investment earnings rates for returns on the Council's portfolio (including historic investments yet to mature) during each financial year for the next four years are as follows:

- 2018/19 0.62%
- 2019/20 0.88%
- 2020/21 1.26%
- 2021/22 1.51%

4.3 Investment treasury indicator and limit - total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end. The Council is asked to approve the treasury indicator and limit:

| Maximum principal sums invested > 364 days | | | |
|--|----------------|----------------|----------------|
| £m | 2018/19 | 2019/20 | 2020/21 |
| Principal sums invested > 364 days | £20m | £20m | £20m |

For its cash flow generated balances, the Council will seek to utilise its business reserve, instant access and notice accounts, money market funds and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

4.4 Investment risk benchmarking

To measure the security of its portfolio, the council compares the historic risk of default of its investments against a maximum target rate.

As an example, based on historic data, a AAA (least risk) rated investment has 0% chance of default within 1 year and a 0.05% chance of default within 3 years. A BBB+ (most risk) rated investment has a 0.23% chance of default within 1 year and a 1.20% chance of default within 3 years.

| | Target |
|--------------------------|---------------|
| Historic risk of default | 0.25% (max) |

4.5 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

4.6 Treasury Management Advisors

The Council's treasury management adviser is Link Asset Services. They provide advice and information on the Council's investment and borrowing activities, although responsibility for final decision making remains with the Council and its officers. The services received include:

- advice and guidance on relevant policies, strategies and reports,
- advice on investment decisions,
- notification of credit ratings and changes,
- advice on debt management decisions,
- accounting advice,
- reports on treasury performance,
- forecasts of interest rates, and
- training courses.

The quality of this service is regularly monitored via internal appraisal and benchmarking with other local authority experience. Following a joint tendering exercise with Nuneaton and Bedworth Borough Council, the contract with Link Asset Services was renewed in October 2017 for a further three years.

4.7 Investment training

The needs of the Council's treasury management staff for training in investment management are assessed annually as part of the staff appraisal process, and training opportunities are provided to ensure the team has an appropriate level of knowledge commensurate to the tasks it is required to carry out.

4.8 Policy on charging interest to the Housing Revenue Account

On 1st April 2012, the Council notionally split each of its existing long-term loans into two pools in proportion to the relative underlying need to borrow of the General Fund and HRA (as measured by the capital financing requirement excluding other long-term liabilities). In the future, new long-term loans borrowed will be assigned in their entirety to either the General Fund or the HRA pool. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be divided accordingly.

Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA at the monthly net average rate earned by the Council on its portfolios of treasury investments and short-term borrowing.

4.9 Other Options Considered

The CLG Investment Guidance and the CIPFA Code of Practice do not prescribe any particular treasury management strategy for local authorities to adopt. Some alternative strategies, with their financial and risk management implications, are listed below.

| Alternative | Impact on income and expenditure | Impact on risk management |
|---|---|---|
| Adopt a narrower definition of “high credit quality” and/or shorter time limits | Interest income will be lower | Reduced risk of defaults leading to losses |
| Adopt a wider definition of “high credit quality” and/or longer time limits | Interest income will be higher | Increased risk of defaults leading to losses |
| Borrow additional sums at variable interest rates | Higher debt interest cost may be offset by higher investment income | Higher investment balance leading to a higher impact in the event of a default |
| Borrow additional sums at long-term fixed interest rates | Higher debt interest cost unlikely to be offset by higher investment income | Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs will be more certain |
| Reduce level of borrowing | Saving on debt interest likely to exceed lost investment income | Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs will be less certain |

The Head of Corporate Resources and Chief Financial Officer believes that the strategy contained within this report represents an appropriate balance between risk management and cost effectiveness.

Name of Meeting: Audit and Ethics Committee
Date of Meeting: 30 January 2018
Subject Matter: Treasury Management Strategy 2018/19 – 2020/21
Originating Department: Corporate Resources

LIST OF BACKGROUND PAPERS

There are no background papers relating to this item.

SPECIFIED AND NON-SPECIFIED INVESTMENTS

SPECIFIED INVESTMENTS

All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable.

| | Minimum Credit Criteria | Maximum Limit |
|--|-------------------------|---------------|
| Specified Investments (limit per counterparty) | | |
| UK Government | - | Unlimited |
| Local Authorities | - | £5m |
| Money Market Funds | AAA | Unlimited |
| Pooled Fund / Institution | AAA/A1 | Unlimited |

| All investments with maturities up to 1 year, high credit criteria: | | | |
|--|-------------------------|---------------|-------------------------|
| | Minimum Credit Criteria | Maximum Limit | Maximum Maturity Period |
| Debt Management Agency Deposit Facility | - | Unlimited | 1 year |
| Term deposits – local authorities and other public institutions | - | £5m | 1 year |

| Term deposits with nationalised banks and building societies: | | | |
|---|-------------------------|---------------|-------------------------|
| | Minimum Credit Criteria | Maximum Limit | Maximum Maturity Period |
| UK part nationalised banks | UK Sovereign rating | £5m | 1 year |
| Banks part nationalised by high credit rated countries UK and non UK* | UK Sovereign rating | £5m | 1 year |
| The countries approved for investing with their banks: Canada, Denmark, Finland, France, Germany, Luxembourg, Netherlands, Norway, Singapore, Sweden, Switzerland, UK, Australia, Belgium, Hong Kong, USA, Abu Dhabi (UAE), Qatar | | | |

| Other instruments: | | | |
|---|-------------------------|---------------|-------------------------|
| | Minimum Credit Criteria | Maximum Limit | Maximum Maturity Period |
| Collateralised deposit | UK Sovereign rating | £5m | 1 year |
| Certificates of deposits issued by banks and building societies | UK Sovereign rating | £5m | 1 year |
| UK Government Gilts | UK Sovereign rating | Unlimited | 1 year |
| Bonds issued by multilateral development banks | Long term AA | £5m | 1 year |
| Treasury Bills | UK Sovereign rating | Unlimited | 1 year |

Collective Investment Schemes structures as Open Ended Investment Companies (OEICs):

| | Minimum Credit Criteria | Maximum Limit | Maximum Maturity Period |
|----------------------------|--------------------------------|----------------------|--------------------------------|
| Government Liquidity Funds | Long Term AA | £5m | 1 year |
| Money Market Funds | Variable NAV Long Term AA | £5m | 1 year |
| Money Market Funds | Stable NAV Long Term AA | £5m | 1 year |
| Enhanced Cash Funds | Long Term AA | £5m | 1 year |
| Bonds Funds | Long Term AA | £5m | 1 year |
| Gilt Funds | Long Term AA | £5m | 1 year |

NON-SPECIFIED INVESTMENTS (MATURITIES OVER ONE YEAR)

These are any investments which do not meet the specified investment criteria. A maximum of £20 million will be held in aggregate in non-specified investment.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the following categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

| Term deposits with nationalised banks and building societies: | | | |
|---|---|----------------------|--------------------------------|
| | Minimum 'High* Credit Criteria | Maximum Limit | Maximum Maturity Period |
| UK part nationalised banks | UK Sovereign rating | £5m | 5 year |
| Banks part nationalised by high credit rating (sovereign rating) countries UK and non UK* | Sovereign rating A | £5m | 5 year |
| The countries approved for investing with their banks: Canada, Denmark, Finland, France, Germany, Luxembourg, Netherlands, Norway, Singapore, Sweden, Switzerland, UK, Australia, Belgium, Hong Kong, USA, Abu Dhabi (UAE), Qatar | | | |

| Maturities of any period: | | | |
|---|--|----------------------|------------------------------------|
| | Minimum 'High* Credit Criteria | Maximum Limit | Maximum Maturity Period |
| Structured deposits | In accordance with Capita's Credit Worthiness Criteria | £5m | 5 years |
| Municipal Bonds | UK sovereign rating | £5m | 5 years |
| Commercial Paper | Short term F2 Long term A | £5m | 5 years |
| Corporate Bonds / Corporate Bond Funds / Gilt Funds | Short term F2 Long term A | £5m | 5 years |
| Floating Rate Notes | Long Term A | £5m | 5 years |
| Covered Bonds | Long Term AA- | £5m | 10 years |
| Un-rated Bonds | Internal due diligence ² | £5m | 10 years |
| CCLA Property Fund | Non-rated internal due diligence ¹ | £2m | 10 years |
| CCLA Diversified Income Fund | Non-rated internal due diligence ² | £2m | 10 years |
| Property Funds | Non-rated internal due diligence ¹ | £2m per fund | 10 years |

| Maturities in excess of 1 year: | | | |
|---|---|----------------------|------------------------------------|
| | Minimum 'High* Credit Criteria | Maximum Limit | Maximum Maturity Period |
| Term deposits – local authorities and other public institutions | - | £5m | 5 years |
| Certificates of deposits issued by banks and building societies | UK sovereign rating | £5m | 5 years |
| UK Government Gilts | | Unlimited | 5 years |
| Bonds issued by multilateral development banks | AA | £5m | 5 years |
| Corporate Bonds | Short Term F2 Long Term A- | £5m | 10 years |
| Green Energy Bonds | Internal Due Diligence | £5m | 10 years |
| Collateralised Term Deposit | Local Authority | £5m | 5 years |
| Sovereign Bond Issues (i.e. other than the UK government) | AA | £5m | 5 years |
| Property Bonds | Non-rated internal due diligence ² | £5m per bond | 5 years |

| Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): | | | |
|---|---|----------------------|------------------------------------|
| | Minimum 'High* Credit Criteria | Maximum Limit | Maximum Maturity Period |
| Bond Funds | AA | £5m | 5 years |
| Gilt Funds | AA | £5m | 5 years |

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by the Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

¹ The Council has been an investor with the CCLA Property Fund since December 2013 and the Lothbury Property Fund since June 2015. In advance of investment treasury management advisors were engaged to assess risk and assist with fund selection processes.

² Investments in these institutions and asset classes will only be undertaken following a review of risk/reward in consultation with the Council's treasury advisors. Specific consideration will be given to factors including: collateralisation, alternate asset classes, minimum term obligations, and potential impact of movement in asset valuations on Council balances. Where appropriate, criteria will be established to convene selection panels prior to the engagement of fund managers.

GLOSSARY OF TERMS

Basis Point (BP) 1/100th of 1%, i.e. 0.01%

Base Rate Minimum lending rate of a bank or financial institution in the UK

Benchmark A measure against which the investment policy or performance of a fund manager can be compared.

Bill of Exchange A financial instrument financing trade.

Callable Deposit A deposit placed with a bank or building society at a set rate for a set amount of time. However, the borrower has the right to repay the funds on pre agreed dates, before maturity. This decision is based on how market rates have moved since the deal was agreed. If rates have fallen the likelihood of the deposit being repaid rises, as cheaper money can be found by the borrower.

Cash Fund Management Fund management is the management of an investment portfolio of cash on behalf of a private client or an institution, the receipts and distribution of dividends and interest, and all other administrative work in connection with the portfolio.

Certificate of Deposit Evidence of a deposit with a specified bank or building society repayable on a fixed date. They are negotiable instruments and have a secondary market; therefore the holder of a CD is able to sell it to a third party before the maturity of the CD.

Commercial Paper Short-term obligations with maturities ranging from 2 to 270 days issued by banks, corporations and other borrowers. Such instruments are unsecured and usually discounted, although some may be interest bearing.

Corporate Bond Strictly speaking, corporate bonds are those issued by companies. However, the term is used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.

Counterparty Another (or the other) party to an agreement or other market contract (e.g. lender/borrower/writer of a swap/etc.)

CDS Credit Default Swap – a swap designed to transfer the credit exposure of fixed income products between parties. The buyer of a credit swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the swap.

CFR Capital Financing Requirement

CIPFA Chartered Institute of Public Finance and Accountancy

CLG Department for Communities and Local Government

CPI Consumer Price Index – calculated by collecting and comparing prices of a set basket of goods and services as bought by a typical consumer, at regular intervals over time. The CPI covers some items that are not in the RPI, such as unit trust and stockbrokers fees, university accommodation fees and foreign students' university tuition fees.

DCLG Department of Communities and Local Government

Derivative A contract whose value is based on the performance of an underlying financial asset, index or other investment, e.g. an option is a derivative because its value changes in relation to the performance of an underlying stock.

DMADF Deposit Account offered by the Debt Management Office, guaranteed by the UK government.

ECB European Central Bank – sets the central interest rates in the EMU area. The ECB determines the targets itself for its interest rate setting policy; this is to keep inflation within a band of 0 to 2%. It does not accept that monetary policy is to be used to manage fluctuations in unemployment and growth caused by the business cycle.

EMU European Monetary Union

Equity A share in a company with limited liability. It generally enables the holder to share in the profitability of the company through dividend payments and capital gain.

EU European Union

Fed Federal Reserve Bank of America – sets the central rates in the USA

Floating Rate Notes Bonds on which the rate of interest is established periodically with reference to short-term interest rates

Forward Deal The act of agreeing today to deposit funds with an institution for an agreed time limit, on an agreed future date, at an agreed rate.

Forward Deposits Same as forward dealing (above).

FSA Financial Services Authority – body responsible for overseeing financial services.

Fiscal Policy The Government policy on taxation and welfare payments.

GDP Gross Domestic Product

GF General Fund

Gilt Registered British government securities giving the investor an absolute commitment from the government to honour the debt that those securities represent.

Gilt Funds Pooled fund investing in bonds guaranteed by the UK government.

Government MMF MMFs that invest solely in government securities, or reverse repurchase agreements backed by Government Securities.

HM Treasury Her Majesty's Treasury

HRA Housing Revenue Account

IFRS International Financial Reporting Standards

IMF International Monetary Fund

iTraxx Brand name for the group of credit default swap index products.

LOBO's Lenders Option Borrowers Option loans

Money Market Fund A well rated, highly diversified pooled investment vehicle whose assets mainly comprise of short term instruments. It is very similar to a unit trust, however in a MMF.

Monetary Policy Committee (MPC) Government body that sets the bank rate (commonly referred to as being base rate). Their primary target is to keep inflation within plus or minus 1% of a central target of 2.0% in two years time from the date of the monthly meeting of the Committee. Their secondary target is to support the Government in maintaining high and stable levels of growth and employment.

MRP Minimum Revenue Provision

MTFP Medium Term Financial Plan

Open Ended Investment Companies A well diversified pooled investment vehicle, with a single purchase price, rather than a bid/offer spread.

Other Bond Funds Pooled funds investing in a wide range of bonds.

PFI Private Finance Initiative

PWLB Public Works Loan Board

QE Quantitative Easing

Reverse Gilt Repo This is a transaction as seen from the point of view of the party which is buying the gilts. In this case, one party buys gilts from the other and, at the same time and as part of the same transaction, commits to resell equivalent gilts on a specified future date, or at call, at a specified price.

Retail Price Index (RPI) Measurement of the monthly change in the average level of prices at the retail level weighted by the average expenditure pattern of the average person.

RPIX As RPI but excluding mortgage interest rate movements.

RPIY As RPI but excluding mortgage interest rate movements and changes in prices caused by changes in taxation.

Sovereign Issues (Ex UK Gilts)

Bonds issued or guaranteed by nation states, but excluding UK government bonds.

Supranational Bonds

Bonds issued by supranational bodies, e.g. European investment bank. These bonds – also known as Multilateral Development Bank bonds – are generally AAA rated and behave similarly to gilts, but pay a higher yield (“spread”) given their relative illiquidity when compared with gilts.

SORP Statement of Recommended Practice

S151 Section 151 Officer

Term Deposit A deposit held in a financial institution for a fixed term at a fixed rate.

Treasury Bill Treasury bills are short term debt instruments issued by the UK or other governments. They provide a return to the investor by virtue of being issued at a discount to their final redemption value.

UBS Union Bank of Switzerland

US United States

WARoR Weighted Average Rate of Return is the average annualised rate of return weighted by the principal amount in each rate.

WAM Weighted Average Time to Maturity is the average time, in days, till the portfolio matures, weighted by principal amount.

WATT Weighted Average Total Time is the average time, in days, that deposits are lent out for, weighted by principal amount.

WA Risk Weighted Average Credit Risk Number. Each institution is assigned a colour corresponding to a suggested duration using Capita’s Suggested Credit Methodology.

Model WARoR Model Weighted Average Rate of Return is the WARoR that the model produces by taking into account the risks inherent in the portfolio.

AGENDA MANAGEMENT SHEET

| | |
|---------------------------------------|--|
| Report Title: | Approval of Accounts |
| Name of Committee: | Audit and Ethics Committee |
| Date: | 30 January 2018 |
| Report Director: | Head of Corporate Resources and Chief Financial Officer |
| Portfolio: | Corporate Resources |
| Ward Relevance: | All |
| Prior Consultation: | Council 14 December 2017 |
| Contact Officer: | Chris Blundell, Financial Services Manager, 01788 533410 |
| Public or Private: | Public |
| Report subject to Call-In: | No |
| Corporate Priorities: | All |
| Statutory / Policy Background: | The Local Audit and Accountability Act 2014 and, Accounts and Audit Regulations 2015 and The Code of Audit Practice. |
| Summary: | The report informs the Committee that following a change in the Council's constitution the approval of the Council's accounts has been delegated to the Committee. |
| Financial Implications: | There are no financial implications for this report |
| Risk Management Implications: | There are no risk management implications for this report |
| Environmental Implications: | There are no environmental implications for this report |
| Legal Implications: | There are no legal implications for this report |

Equality and Diversity:

There are no equality and diversity implications for this report

Recommendation:

1. The Committee note the change in delegation.
2. The Committee consider any additional training requirements in order to fulfil their responsibility to approve the accounts.

Audit and Ethics Committee – 30 January 2018

Approval of Accounts

Report of the Head of Corporate Resources and Chief Financial Officer

| |
|---|
| <p>Recommendation</p> <ol style="list-style-type: none"> 1. The Committee note the change in delegation. 2. The Committee consider any additional training requirements in order to fulfil their responsibility to approve the accounts. |
|---|

1. Background

Following a change in statutory requirements, it is necessary for the Council’s statutory accounts to be approved by 31 July each year, as opposed to the previous 30 September deadline. In-line with previously deadlines the Council’s accounts have been considered by the Audit and Ethics Committee in September before being approved by Council later in the month.

However, this shift in the deadline led to a corresponding movement forward in 2018/19 Calendar for the Council’s meeting to approve the accounts. Subsequently this presented a conflict in requirements to hold a Council meeting to approve the accounts in accordance with the new timetable and scheduling meetings to avoid school holidays for Warwickshire.

2. Change to Delegation

To resolve this conflict, on 14 December 2017, the Council approved to delegate the approval of the Council’s accounts to the Audit and Ethics Committee.

Delegation of the approval to similar committees is reasonably common across local government. The table overleaf sets out the arrangements at the other Warwickshire local authorities.

| Council | Governance Arrangements |
|-------------------------------|--|
| North Warwickshire Borough | Approved by Council |
| Nuneaton and Bedworth Borough | Approved by Council |
| Stratford-on Avon District | Approved by Audit and Standards Committee |
| Warwick District | Approved by Finance and Audit Scrutiny Committee |
| Warwickshire County | Approved by Council |

Therefore, the Council’s committee timetable for 2018/19 reflects that the Audit and Ethics will consider the accounts for approval at its meeting on **Monday 30 July 2018**. It is also intended that draft accounts will be presented to the Committee for review on Tuesday 29 May 2018.

3. Training

Given this delegation to the Committee the report recommends members consider whether they wish to receive addition training on the content and approval of the Council's accounts in order aid them meet their additional responsibilities.

Training could be provided in advance of the meetings in either March, May or July and tailored to members requirements.

Name of Meeting: Audit and Ethics Committee

Date of Meeting: 30 January 2018

Subject Matter: Approval of Accounts

Originating Department: Corporate Resources

List of Background Papers

There are no background papers relating to this item.

AGENDA MANAGEMENT SHEET

| | |
|---------------------------------------|---|
| Report Title: | Annual Governance Statement Progress Update |
| Name of Committee: | Audit and Ethics Committee |
| Date: | 30 January 2018 |
| Report Director: | Head of Corporate Resources and Chief Financial Officer |
| Portfolio: | Corporate Resources |
| Ward Relevance: | None |
| Prior Consultation: | Head of Corporate Resources and Chief Financial Officer, Executive Director, Senior Management Team, Portfolio Holder for Corporate Resources |
| Contact Officer: | Chris Green, Corporate Assurance and Improvement Manager, Tel: 01788 533 451 |
| Public or Private: | Public |
| Report subject to Call-In: | No |
| Corporate Priorities: | Ensure that the Council works efficiently and effectively |
| Statutory / Policy Background: | The Accounts and Audit Regulations 2015 require the Council to publish an Annual Governance Statement (AGS). |
| Summary: | The report summarises the progress made towards implementing the AGS action plan since June 2017. |
| Financial Implications: | There are no financial implications arising directly from this report. |
| Risk Management Implications: | There are no risk management implications arising directly from this report. |
| Environmental Implications: | There are no environmental implications arising from this report. |
| Legal Implications: | There are no legal implications arising from this report. |

| | |
|------------------------------------|--|
| Equality and Diversity: | There are no equality and diversity implications arising from this report. |
| Options: | Not applicable |
| Recommendation: | The progress towards implementation of the AGS action plan be noted. |
| Reasons for Recommendation: | To discharge the Committee's responsibilities under the Constitution. |

Audit and Ethics Committee – 30 January 2018

Annual Governance Statement Progress Update

Report of the Head of Corporate Resources and Chief Finance Officer

Recommendation

The progress towards implementation of the AGS action plan be noted.

1. Introduction

- 1.1 The purpose of this report is to summarise the progress made towards implementing the AGS action plan since its approval in September 2017.
- 1.2 The AGS is formally approved each year by Council and signed by the Executive Director and Leader of the Council, who take personal responsibility for the control framework described and for the delivery of the identified improvements to the framework.
- 1.3 The AGS for 2016/17 was drafted by the Corporate Assurance and Improvement Manager and considered by the Executive Director and Head of Corporate Resources. It was then considered by the Audit & Ethics Committee in June 2017 and formally approved by the Senior Management Team prior to its submission to Council. The AGS stated that the Council is satisfied that its overall governance framework provides a substantial level of assurance of effectiveness, although 12 further development areas were highlighted. These further development areas were recorded in an agreed action plan which formed part of the approved AGS.

2. Report Details

- 2.1 When the AGS for 2016/17 was considered by the Audit & Ethics Committee, members requested that an update on progress made towards implementation of the action plan be provided at the meeting in January 2018.
- 2.2 In summary, four actions have been completed and work is in progress on all the remaining 8 areas. It is currently expected that the action plan will be fully implemented by the end of July 2018.
- 2.3 The AGS action plan progress update is enclosed with this report at Appendix A.

Name of Meeting: Audit and Ethics Committee
Date of Meeting: 30 January 2018
Subject Matter: Annual Governance Statement Progress Update
Originating Department: Corporate Assurance and Improvement

LIST OF BACKGROUND PAPERS

| Document No. | Date | Description of Document | Officer's Reference | File Reference |
|--------------|------------|---|---------------------|----------------|
| Appendix A | 30/01/2018 | Annual Governance Statement Progress Update | | |

APPENDIX A - ANNUAL GOVERNANCE STATEMENT ACTION PLAN

| | Action | Lead officer | Target completion date | Progress Update January 2018 |
|----------|--|--------------------|------------------------|--|
| 1 | <p>Update the feedback and complaints procedure, ensuring that:</p> <ul style="list-style-type: none"> • Common themes are identified for which lessons may need to be applied across the Council; and • There is a common approach to recognising and celebrating positive feedback from customers. | Executive Director | December 2017 | <p>In Progress</p> <p>A common approach to recognising and celebrating positive feedback is in place. The format of supervisory review meetings has been updated to ensure that success is recognised and recorded as such. Key successes are also highlighted at briefings attended by all employees. Further work will be completed in Quarter 4 to formally capture the process for identifying common themes emerging from customer feedback and complaints, including where lessons may need to be applied across the Council. It is expected that this will be complete by the end of March 2018.</p> |
| 2 | <p>Implement and embed compliance with the new General Data Protection Regulations.</p> | Executive Director | May 2018 | <p>In Progress</p> <p>The Communication, Consultation and Information Manager is leading this project. Work is ongoing with departments to identify the data held and processed by the Council, their format, retention and storage arrangements. The internal audit service will also provide support during Quarter 4 by reviewing the risk and control measures which departments plan to implement to ensure day to day compliance with the regulations. The target completion date is expected to be achieved.</p> |

| | Action | Lead officer | Target completion date | Progress Update January 2018 |
|---|--|--|------------------------|---|
| 3 | Review and update the service planning process, ensuring that delivery of action plans is monitored and that there are clear linkages between key performance measures and the outcomes envisaged in the corporate strategy. | Head of Corporate Resources and s151 Officer | September 2017 | Completed A new approach to planning the delivery of services has been implemented. Workshops are being held with every team, at which the actions planned to implement the new corporate strategy are being identified and recorded. Key performance measures are also being identified and there will be clear linkages between the priorities of the corporate strategy, the service action plans and key performance measures. The workshops are being facilitated by the Corporate Assurance and Improvement team. |
| 4 | Review, update and communicate the protocol for member/ officer relations. | Executive Director | November 2017 | In Progress The protocol is currently under review; this is expected to be complete by the end of February 2018. |
| 5 | Develop a corporate risk register, ensuring risks are effectively managed through the Strategic Risk Management Group. | Head of Corporate Resources and s151 Officer | December 2017 | In Progress The corporate strategy action planning workshops referred to above also include the identification of key risks to the delivery of corporate strategy priorities. This information will be used to develop the corporate risk register. The work is expected to be complete by the end of April 2018. |
| 6 | Complete and publish the review of governance arrangements for jointly managed organisations and partnerships. | Head of Corporate Resources and s151 Officer | March 2018 | In Progress Expected to be complete as planned by the end of March 2018. |

| | Action | Lead officer | Target completion date | Progress Update January 2018 |
|----|--|--|------------------------|--|
| 7 | Add corporate performance information to the open data section of the Council website. | Head of Corporate Resources and s151 Officer | December 2017 | In Progress This was considered by the Strategic Risk Management Group in November 2017, and it was agreed that following the approval of a new suite of Key Performance Indicators (KPIs) aligned with the new corporate strategy, this information will be published in the open data section of the Council website from the end of July 2018. The information is already published via Council agenda reports but adding the information to the open data section will improve transparency. |
| 8 | Report the results of the internal audit external quality assessment to the Audit & Ethics Committee and update the service improvement plan to reflect the results of the assessment. | Head of Corporate Resources and s151 Officer | November 2017 | Complete The full report and improvement plan were presented to the Audit & Ethics Committee in November 2017. |
| 9 | Develop Business Continuity Plans for critical services. | Executive Director | December 2017 | In Progress This work is close to completion; finalisation of Business Continuity Plans is outstanding for two service areas. |
| 10 | Review and update of the Constitution, including the Code of Conduct for Officers. | Executive Director | November 2017 | Complete The Constitution has been fully reviewed and the updated version was presented to Council for approval on December 14 th , 2017. |

| | Action | Lead officer | Target completion date | Progress Update January 2018 |
|----|---|--|------------------------|---|
| 11 | Introduce a dedicated governance forum, ensuring that any emerging governance issues are reviewed and addressed during the year. | Executive Director | December 2017 | <p>Complete</p> <p>The remit of the Strategic Risk Management Group has been updated to include consideration of governance issues. Specifically, governance issues arising from the work of internal audit are now considered by the group. Any issues highlighted at Audit & Ethics Committee are also addressed through the group. Significant control breaches are considered and the group reviews progress in delivering the AGS action plan, most recently in November 2017. Emerging corporate governance issues are also reported to and considered by the group. A recent example is the General Data Protection Regulations, with the Communication, Consultation and Information Manager presenting a progress update to the group in November 2017.</p> |
| 12 | Fully implement and embed the new Anti-Fraud, Bribery and Corruption Strategy, including provision of further training to members and individual teams. | Head of Corporate Resources and s151 Officer | March 2018 | <p>In Progress</p> <p>Awareness training workshops will be delivered in Quarter 4. Additional fraud investigation capacity is being generated. A separate action plan is in place which was included in an annual fraud report presented to the Audit & Ethics Committee in September 2017.</p> |

AGENDA MANAGEMENT SHEET

| | |
|--|---|
| <i>Name of Meeting</i> | Audit and Ethics Committee |
| <i>Date of Meeting</i> | 30 January 2018 |
| <i>Report Title</i> | 2017/18 Internal Audit Plan – Progress Update |
| <i>Portfolio</i> | Corporate Resources |
| <i>Ward Relevance</i> | None |
| <i>Prior Consultation</i> | Head of Corporate Resources and Chief Finance Officer |
| <i>Contact Officer</i> | Chris Green, Corporate Assurance and Improvement Manager, Tel: 01788 533451 |
| <i>Report Subject to Call-in</i> | This report is not subject to Call-In because the Committee has specific responsibility to review the work of the internal audit function and the framework of policies and standards within which it operates. |
| <i>Statutory/Policy Background</i> | Public Sector Internal Audit Standards (PSIAS) |
| <i>Summary</i> | The report sets out progress against delivery of the Internal Audit Plan for 2017/18. |
| <i>Risk Management Implications</i> | There are no risk management implications arising directly from this report. |
| <i>Financial Implications</i> | There are no financial implications arising directly from this report. |
| <i>Environmental Implications</i> | There are no environmental implications arising from this report. |
| <i>Equality and Diversity</i> | There are no Equality and Diversity implications arising from this report. |
| <i>Legal Implications</i> | There are no legal implications arising from this report. |
| <i>Recommendation</i> | That the report be considered and noted. |
| <i>Reasons for Recommendation</i> | To comply with the requirements of the terms of reference of the Audit and Ethics Committee, and to discharge the Committee's responsibilities under the Constitution. |

Audit and Ethics Committee – 30 January 2018

2017/18 Internal Audit Plan – Progress Update

Report of the Head of Corporate Resources and Chief Finance Officer

Recommendations

1. That the report be considered and noted.
2. That the approach to developing the internal audit plan for 2018/19 be approved.

1. Introduction

- 1.1 The purpose of this report is to set out progress against the Internal Audit Plan for 2017/18.

The Council has a legal duty to maintain an adequate and effective Internal Audit service. The primary role of Internal Audit is to provide independent assurance that the Council has put in place appropriately designed internal controls to ensure that:

- The Council's assets and interests are safeguarded;
- Reliable records are maintained;
- Council policies, procedures and directives are adhered to; and
- Services are delivered in an efficient, effective and economic manner.

This work is normally referred to as Section 151 work.

2. Summary of Audit Work

- 2.1 The Internal Audit plan for 2017/18 was approved by the Audit and Ethics Committee on 4 April 2017. Progress against delivery of that plan is set out at Appendix A.
- 2.2 Appendix A also sets out the progress against the recommendations made by Internal Audit for 2016/17 and the current financial year.

3. Revisions to the 2017/18 Audit Plan

- 3.1 The Committee's role as gatekeeper requires it to approve any significant changes to the internal audit plan, in accordance with the Public Sector Internal Audit Standards. It is also good practice to continually review the audit plan in light of emerging issues, to ensure that the work of internal audit adds maximum value by proactively responding to and aligning its work with the most significant risks facing the organisation. At this time there are no proposed changes to the internal audit plan.

Name of Meeting: Audit and Ethics Committee
Date of Meeting: 30 January 2018
Subject Matter: 2017/18 Internal Audit Plan – Progress Update
Originating Department: Corporate Assurance and Improvement

LIST OF BACKGROUND PAPERS

| Document No. | Date | Description of Document | Officer's Reference | File Reference |
|--------------|------------|--------------------------------|---------------------|----------------|
| Appendix A | 30/01/2018 | Internal Audit Progress Update | | |



**INTERNAL AUDIT PROGRESS UPDATE
JANUARY 2018**

Date: 30 January 2018

Introduction

- 1.1 The Public Sector Internal Audit Standards (the Standards) require the Audit and Ethics Committee to scrutinise the performance of Internal Audit and to satisfy itself that it is receiving appropriate assurance that the controls put in place by management address the identified risks to the Council. This report aims to provide the Committee with details on progress made in delivering planned work, the key findings of audit assignments completed since the last Committee meeting, updates on the implementation of actions arising from audit reports and an overview of the performance of the team.

Performance

2.1 Will the Internal Audit Plan be delivered?

The expected position by the date of the Committee meeting is as follows:

- 5 assignments have been completed;
- 2 assignments are at draft report stage;
- 10 assignments are in progress (five of which are being delivered by TIAA);
- 2 assignments are at the planning/ scoping stage; and
- 5 assignments are not yet started. All of these assignments are planned to start in February, two of which will be delivered by TIAA.

As reported at previous meetings, progress on delivery of the internal audit plan is slightly behind due to the delay in successfully recruiting to the vacant Corporate Assurance Officer position. There have also been two cases of long term sickness absence within the Corporate Assurance and Improvement team. Savings achieved by not appointing to the vacant position earlier in the year have been used to commission TIAA to deliver four audit assignments. Furthermore, the Corporate Financial Business Analyst is assisting in delivery of the Licensing review. The resources required to deliver the remainder of the revised audit plan have been reviewed in detail. There are sufficient resources in place to deliver the revised audit plan.

Progress on individual assignments is shown at pages 6 to 8 of this report.

2.2 Based upon recent Internal Audit work, are there any emerging issues that impact upon the Internal Audit opinion of the Council's Control Framework?

At this stage there are no emerging issues arising from the work of Internal Audit which significantly impact upon the Internal Audit opinion of the Council's Control Framework.

Results of Audit Work

One audit has been finalised since the previous meeting and the results are summarised below.

RAGM Income Audit:

Assurance Rating: Substantial, Risk Exposure: Medium

The audit considered the processes in place regarding the numerous income streams which flow through the Visitor Centre, including ticket and merchandise sales. The audit did not highlight any examples of significant control weakness. However, the audit did highlight several areas where control efficiency and effectiveness could be improved. Specifically:

- The till system, card machine and various ticketing systems are not linked and therefore require manual reconciliations to ensure all transactions are input appropriately.
- The value of stock discrepancies at year end is no longer reported or analysed.
- Controls around access to the back-office safe should be improved.
- The Ticketmaster agreement currently being considered does not appear to have a clear financial business plan. Revenue expectations and ongoing operating costs have not been considered.

An action plan has been agreed to mitigate the identified risks.

2.3 Are clients progressing audit recommendations with appropriate urgency?

At the date of reporting, 72% of management actions have been implemented by the agreed implementation date. A summary analysis of progress on implementation of audit recommendations is shown at pages 9 to 10. At the time of reporting there are 14 agreed management actions for which implementation is overdue. The details of these actions, along with a summary of the latest position, are set out at pages 11 to 15 of this report. Implementation of the actions will continue to be monitored by the Corporate Assurance and Improvement Team and reported to each Committee meeting.

2.4 Internal Audit Performance Indicators

The effectiveness with which Internal Audit discharges its section 151 responsibilities is being measured by the following indicators, as agreed by the Audit and Ethics Committee in May 2016:

| <u>Theme</u> | <u>Title of Performance Indicator</u> | <u>Current Performance</u> |
|---------------------|---|--|
| Delivery | Delivery of the Internal Audit Plan – Percentage of assignments delivered to at least draft report stage by 31 March 2017 | Annual measure Prior year result: 85% |
| Adding Value | Customer Satisfaction – Average Rating | Insufficient data available |
| Timeliness | Timeliness of Reporting – Average time taken to issue draft reports following fieldwork completion | 6.6 working days |
| Effectiveness | Implementation of Agreed Actions – Percentage either fully or partially implemented on time | 72% - at the time of reporting there are 14 recommendations which are past their agreed implementation date. Refer to pages 11 to 15 |

Limitations and Responsibilities

Limitations inherent to the Internal Auditor's work

Internal Audit is undertaking a programme of work agreed by the council's senior managers and approved by the Audit and Ethics Committee subject to the limitations outlined below.

Opinion

Each audit assignment undertaken addresses the control objectives agreed with the relevant responsible managers. There might be weaknesses in the system of internal control that Internal Audit are not aware of because they did not form part of the programme of work were excluded from the scope of individual internal audit assignments, or were not brought to the attention of Internal Audit. As a consequence, the Audit and Ethics Committee should be aware that the Audit Opinion for each assignment might have differed if the scope of individual assignments was extended or other relevant matters were brought to Internal Audit's attention.

Internal Control

Internal control systems identified during audit assignments, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees and others management overriding controls, and unforeseeable circumstances.

Future Periods

The assessment of each audit area is relevant to the time that the audit was completed in. In other words, it is a snapshot of the control environment at that time. This evaluation of effectiveness may not be relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulatory requirements or other factors; or
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of Management and Internal Auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance, and for the prevention or detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

Internal Audit endeavours to plan its work so that there is a reasonable expectation that significant control weaknesses will be detected. If weaknesses are detected additional work is undertaken to identify any consequent fraud or irregularities. However, Internal Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected, and its work should not be relied upon to disclose all fraud or other irregularities that might exist.

Progressing the Annual Internal Audit Plan

KEY
Current status of assignments is shown by ✓

| Assignment | Budget (days) | Not Started | Planning | Field Work Underway | Field Work Complete | Draft Report | Final Report | Assurance Rating | Comments |
|---|---------------|-------------|----------|---------------------|---------------------|--------------|--------------|------------------|--|
| Financial Risks | | | | | | | | | |
| Housing Rents | 10 | ✓ | | | | | | | Being delivered by TIAA. Start planned in February 2018 |
| Green Waste | 12 | | | | | ✓ | | | |
| Counter Fraud | | | | | | | | | |
| Fraud Awareness | 8 | | | ✓ | | | | | A range of training sessions to be delivered by 31/03/18 |
| Council Tax and NDR Fraud | 12 | | | | | ✓ | | | |
| Corporate Credit Cards | 10 | | | | | | ✓ | Limited | Results reported in November 2017 |
| ICT | | | | | | | | | |
| Disaster Recovery and Backup | 6 | | | ✓ | | | | | Being delivered by TIAA |
| CCTV – Compliance with Code of Operations | 10 | | | ✓ | | | | | Being delivered by TIAA |
| Cyber Security | 8 | | | ✓ | | | | | Being delivered by TIAA |
| Corporate Risks | | | | | | | | | |
| Change Management - Digitalisation | 5 | | | ✓ | | | | | Ongoing consultative support. |
| Partnership Governance | 15 | | | ✓ | | | | | Being delivered by TIAA |
| Values and Behaviours | 15 | ✓ | | | | | | | Start planned in February 2018. |
| Risk Management | 10 | ✓ | | | | | | | Being delivered by TIAA. Start planned in February 2018. |

| Assignment | Budget (days) | Not Started | Planning | Field Work Underway | Field Work Complete | Draft Report | Final Report | Assurance Rating | Comments |
|---|---------------|-------------|----------|---------------------|---------------------|--------------|--------------|------------------|---|
| Operational Risks | | | | | | | | | |
| Benn Hall | 20 | | | ✓ | | | | | |
| Housing Repairs Stock Control | 15 | ✓ | | | | | | | Start planned in February 2018. |
| RAGM Income | 12 | | | | | | ✓ | Substantial | See comments at Page 3 |
| Play Service and On Track | 20 | | | | | | ✓ | Limited | Results reported in November 2017 |
| Residential – Landlord Health and Safety Responsibilities | 15 | ✓ | | | | | | | Start planned in February 2018. |
| Fleet Management | 20 | | | ✓ | | | | | Being delivered by TIAA |
| Licensing | 20 | | | ✓ | | | | | Fieldwork likely to run into 2018/19 – substantial service process redesign project. |
| General Data Protection Regulations | 20 | | ✓ | | | | | | Fieldwork to be conducted during February and March 2018. |
| Housing Restructure | 30 | | ✓ | | | | | | Fieldwork to be conducted during February and March 2018. |
| Additional Support | | | | | | | | | |
| Annual Governance Statement | 15 | | | | | | ✓ | Substantial | Statement endorsed by Audit and Ethics Committee in June 2017. |
| National Fraud Initiative | 8 | | | ✓ | | | | | Officers are reviewing and investigating “matches” where appropriate. This work is continuing during 2017/18. |
| Corporate Investigation Work | 35 | | | | | | ✓ | | One corporate investigation has been completed with a report issued. |

Summary: Implementation of Audit Recommendations Made in 2016/17

| Audit | No. of Recs | Implemented on Time | Implemented Late | Not yet due | Overdue | Rejected Medium or High Risk Actions |
|---|--------------------|----------------------------|-------------------------|--------------------|-----------------|---|
| Stocks and Stationery | 3 | 3 | 0 | 0 | 0 | 0 |
| ICT Service Desk | 4 | 0 | 0 | 0 | 4 | 0 |
| Corporate Health and Safety | 15 | 10 | 0 | 0 | 5 | 0 |
| Fees and Charges | 8 | 7 | 0 | 0 | 1 | 0 |
| ICT Infrastructure Resilience | 5 | 0 | 4 | 0 | 1 | 0 |
| Payment Card Industry Data Security Standards | 7 | 3 | 0 | 3 | 1 | 0 |
| Business Continuity and Emergency Planning | 8 | 5 | 0 | 2 | 1 | 0 |
| Benn Hall Investigation | 8 | 7 | 0 | 1 | 0 | 0 |
| Discretionary and Consultant Expenditure | 7 | 3 | 0 | 3 | 1 | 0 |
| ICT Systems Administration | 7 | 6 | 1 | 0 | 0 | 0 |
| Due for Completion | 63 | 44 (70%) | 5 (8%) | - | 14 (22%) | 0 |
| Totals | 72 | 44 | 5 | 9 | 14 | 0 |

Summary: Implementation of Audit Recommendations Made in 2017/18

| Audit | No. of Recs | Implemented on Time | Implemented Late | Not yet due | Overdue | Rejected Medium or High Risk Actions |
|---------------------------|--------------------|----------------------------|-------------------------|--------------------|----------------|---|
| Corporate Credit Cards | 9 | 5 | 0 | 4 | 0 | 0 |
| Play Service and On Track | 12 | 0 | 0 | 12 | 0 | 0 |
| RAGM Income | 14 | 0 | 0 | 14 | 0 | 0 |
| Due for Completion | 5 | 5 (100%) | 0 | - | 0 | 0 |
| Totals | 35 | 5 | 0 | 30 | 0 | 0 |

Combined Summary: Implementation of Audit Recommendations

| | | | | | | |
|---------------------------|------------|-----------------|---------------|-----------|-----------------|----------|
| Due for Completion | 68 | 49 (72%) | 5 (7%) | - | 14 (21%) | 0 |
| Totals | 107 | 49 | 5 | 39 | 14 | 0 |

Details of Overdue Audit Recommendations

| Audit | Agreed Action | Original Target Date | Management Comments | Revised Timescale |
|-------------------|--|-----------------------------|--|--------------------------|
| Health and Safety | <p>Review the level of Health and Safety Advisor support across the Council.</p> <p>Ensure there is appropriate advisory support in place so high risk operational activities are undertaken safely.</p> | 31/03/2017 | <p>Action in progress. Senior management has reviewed the level of support required. Two new positions were approved within an expanded Corporate Safety and Resilience team. Unfortunately, it was not possible to appoint to the vacant positions. The Council then considered its options and is now entering a service level agreement with Coventry Solihull and Warwickshire resilience team. This will enable support to be provided for the Council's emergency planning and business continuity functions. Management are reviewing the role profiles within Corporate Safety and Resilience team and expects to re-advertise the vacant positions shortly.</p> | 31/06/2018 |
| Health and Safety | <p>Ensure that all temporary and agency staff receive appropriate induction training covering safe working practices, including DSE assessments where applicable.</p> | 31/03/2017 | <p>The original agency worker checklist has been reviewed and the procedure updated. A health and safety video will be developed which must be watched by all such staff before they commence work with the Council. At the time of reporting a meeting had been held with the film producer. It is expected that filming will take place in February 2018. The staff will be</p> | 31/03/2018 |

| Audit | Agreed Action | Original Target Date | Management Comments | Revised Timescale |
|-------------------|--|----------------------|--|-------------------|
| | | | required to confirm that they have watched and understood the contents of the video. The Council's agency worker supplier will administer this on behalf of the Council. | |
| Health and Safety | Consider requiring staff to attend health and safety refresher training on a programmed, targeted basis | 30/06/2017 | Timing is linked to resourcing of the Corporate Safety and Resilience team (see above). A key element of the Senior Health and Safety Officer role will be staff training. | 30/09/2018 |
| Health and Safety | <p>Publish the list and authors of risk assessments on the Extranet, and ensure that significant risks are communicated to the relevant staff and stakeholders.</p> <p>Ensure that risk assessments are periodically reviewed and updated, with any further training needs highlighted and communicated.</p> <p>Ensure that accident reports include a statement to demonstrate exactly how the risk assessment has changed as a result.</p> <p>Undertake periodic management monitoring checks to provide assurance that health and safety risk assessments have been completed and/or updated for all areas of significant risk.</p> | 31/03/2017 | A programme of work for risk assessments has been planned for implementation once additional Safety Team resources are in place. See above. | 30/09/2018 |

| Audit | Agreed Action | Original Target Date | Management Comments | Revised Timescale |
|-------------------------------|---|----------------------|---|-------------------|
| Health and Safety | <p>Ensure iTrent (the HR system) contains all the information required to trigger DSE review assessments at the appropriate time.</p> <p>Remind managers to ensure that DSE assessments are completed for staff at the correct intervals, and to update iTrent to reflect the completed assessments.</p> | 31/03/2017 | The HR and Payroll Business Partner will be asked to address this issue on return from maternity leave. A report will be produced periodically and circulated to managers to action where records have not been updated. | 28/02/2018 |
| Fees and Charges | The Finance Manager and Legal Services Manager should liaise with the Solicitor and Deputy Monitoring Officer to ensure that areas where services are free of charge currently but which have the potential to generate significant income are included in the next review. It would also be useful for Finance Officers to definitively know what the legal position is in the areas they look after i.e. whether generating an income rather than cost recovery is acceptable in statute. | 31/05/2017 | A revised timescale will be agreed with the Legal Services Manager. The previous Solicitor has now left the Council and a Principal Lawyer is being recruited. Timing is dependent upon an evaluation of the resources available. | TBC |
| ICT Infrastructure Resilience | The Security and Compliance Lead Officer to discuss patching with the HSO project lead and obtain a documented response. | 30/06/2017 | A response is awaited from the project lead and is being actively chased. | 30/11/2017 |

| Audit | Agreed Action | Original Target Date | Management Comments | Revised Timescale |
|---|---|-----------------------------|---|--------------------------|
| Payment Card Industry Data Security Standards (PCI DSS) | The Benn Hall CCTV system should be backed up to mitigate the risk of information loss and to ensure that footage is retained for the required minimum period of 3 months. | 31/12/2017 | Awaiting update from management. | TBC |
| Business Continuity and Emergency Planning | Draft and cascade an updated bomb threat procedure. | 31/12/2017 | A procedure has been drafted and is to be discussed with the new Head of Environment and Public Realm prior to its finalisation. | 31/03/2018 |
| Discretionary Expenditure | Review the annual subscription to Housemark to ensure that the benefits of the service are being realised within the council. | 31/10/2017 | A meeting has been arranged in February 2018 to discuss the benefits and costs of the annual subscription, and to decide whether to continue with it. | 28/02/2018 |
| ICT Service Desk | The benchmark performance metrics and how they should be interpreted to be documented within the service delivery document and Confluence. | 31/08/2017 | The ICT Service Desk Manager has advised that following investigation the current service desk system does not have the capability and functionality required to effectively manage performance of the service. The system is going to be replaced by June 2018 and it is expected that the new system will have the required capability. | 30/06/2018 |
| ICT Service Desk | The Service Delivery Lead should raise with SysAid / the user forum group the possibility of being provided with some basic data on the makeup of the category group populations used for the benchmarking stats. | 31/08/2017 | The issues highlighted were all assessed as Low risk and in the opinion of the Corporate Assurance and Improvement Manager the delay does not significantly impact on the overall effectiveness of the Council's framework of control. | 30/06/2018 |
| ICT Service Desk | The ICT Manager and the Service Delivery Lead should agree a date for the first performance reporting period. | 31/08/2017 | | 30/06/2018 |

| Audit | Agreed Action | Original Target Date | Management Comments | Revised Timescale |
|------------------|--|----------------------|---------------------|-------------------|
| ICT Service Desk | A response from SysAid in respect of the lack of due dates showing in reports should be requested. | 31/08/2017 | | 30/06/2018 |

AGENDA MANAGEMENT SHEET

| | |
|---------------------------------------|---|
| Report Title: | Development of Internal Audit Plan for 2018/19 |
| Name of Committee: | Audit and Ethics Committee |
| Date: | 30 January 2018 |
| Report Director: | Head of Corporate Resources and Chief Financial Officer |
| Portfolio: | Corporate Resources |
| Ward Relevance: | None |
| Prior Consultation: | Head of Corporate Resources and Chief Financial Officer |
| Contact Officer: | Chris Green, Corporate Assurance and Improvement Manager, Tel: 01788 533 451 |
| Public or Private: | Public |
| Report subject to Call-In: | No |
| Corporate Priorities: | Ensure that the Council works efficiently and effectively |
| Statutory / Policy Background: | Public Sector Internal Audit Standards |
| Summary: | The report sets out the proposed arrangements for developing the internal audit plan for 2018/19. |
| Financial Implications: | There are no financial implications arising directly from this report. |
| Risk Management Implications: | If the Audit Plan does not cover the key risks to the Council the assurance that it can provide about the Council's control framework would be compromised. |
| Environmental Implications: | There are no environmental implications arising from this report. |
| Legal Implications: | There are no legal implications arising from this report. |
| Equality and Diversity: | There are no equality and diversity implications arising from this report. |

Options: Not applicable

Recommendations:

1. The process for developing the internal audit plan for 2018/19 is approved.
2. Members consider areas in which they require assurances from Internal Audit during 2018/19.

Reasons for Recommendation: To discharge the Committee's responsibilities under the Constitution.

Audit and Ethics Committee – 30 January 2018

Development of the Internal Audit Plan for 2018/19

Report of the Head of Corporate Resources and Chief Finance Officer

Recommendations

1. The process for developing the internal audit plan for 2018/19 is approved.
2. Members consider areas in which they require assurances from Internal Audit during 2018/19.

1. Introduction

1.1 The Internal Audit Plan is designed to support the provision of an annual Internal Audit Opinion. The basis for forming this opinion is as follows:

- An assessment of the design and operation of the underpinning Governance, Assurance and Risk Frameworks and supporting processes; and
- An assessment of the range of individual opinions arising from the risk based assignments, which will be reported throughout the year.

1.2 The Internal Audit Plan covers the two key component roles of Internal Audit:

- The provision of an independent and objective opinion to the Head of Corporate Resources/Chief Finance Officer and the Audit and Ethics Committee on the degree to which risk management, control and governance support the achievement of Council objectives; and
- The provision of an independent and objective consultancy service specifically to help line management improve the organisation's risk management, control and governance arrangements.

2. Report Details

Public Sector Internal Audit Standards

2.1 In setting the Internal Audit Plan, the Public Sector Internal Audit Standards (the Standards) require that:

- The Internal Audit Plan should be developed taking into account the organisation's risk management framework and based upon a risk assessment process undertaken with senior management and the Audit and Ethics Committee.

- The Internal Audit Plan should be reviewed and approved by an effective and engaged Audit Committee to confirm that the plan addresses their assurance requirements for the year ahead.
- The “Chief Audit Executive” should consider accepting proposed consulting engagements based on the engagement’s potential to improve management of risks, add value and improve the organisation’s operations. Accepted engagements must be included in the plan.

Proposed Approach to Developing the Internal Audit Plan

- 2.2 In order to ensure the Internal Audit Plan for 2018/19 addresses the Council’s key strategic and operational risks and adds value to the organisation, it is proposed that the Corporate Assurance and Improvement Manager will identify and prioritise areas for coverage by reviewing sources such as:
- Strategic and Operational Risk Registers
 - Corporate Strategy
 - Financial Statements
 - Service Plans
- 2.3 Any other sources of assurance for each of the Council’s key risks will be considered, which may reduce the added value of an Internal Audit review. Options for aligning work with other assurance providers will also be evaluated.
- 2.4 Coverage of Internal Audit reviews over the last four years will be reviewed together with the assurance opinions provided following each review, to identify any assurance gaps or areas where follow up work would be of value.
- 2.5 The Audit Universe (the long list of potential areas for audit review across the Council) will be reviewed and updated. Areas which have not been subject to Internal Audit review during the last four years, and for which the level of risk is considered to be medium or higher, will be considered for inclusion in the audit plan.
- 2.6 Members are encouraged to provide input to development of the internal audit plan by highlighting areas which they consider to be high risk. This input may be provided at the Committee meeting; alternatively members are welcome to contact the Corporate Assurance and Improvement Manager before 28 February 2018.
- 2.7 Stakeholder meetings with each member of the Senior Management Team (SMT) will take place during February 2018. The Audit Universe will form a basis for the stakeholder discussions; in addition there will be a discussion of key risks and emerging risks for the year ahead, and any areas where Internal Audit support would be beneficial either in an assurance or consultancy role.
- 2.8 Following the stakeholder meetings, the planned audit coverage for 2018/19 will be refined and prioritised.
- 2.9 The proposed Internal Audit Plan will then be presented to SMT for approval in March 2018, and members will be asked to approve the Plan at the next Audit and Ethics Committee meeting on 28 March 2018.

2.10 Delivery of the internal audit service is currently supported by an appointed third-party contractor, TIAA Ltd. TIAA delivers the Council's internal IT audits under a framework agreement managed by Warwickshire County Council. There is also a call off option for non-IT internal audit work, which helps to provide resilience to the Council's in-house service. Following a recent tender exercise led by Warwickshire County Council, TIAA have been reappointed for a further four years and will therefore continue to support delivery of the Council's internal audit service.

Name of Meeting: Audit and Ethics Committee
Date of Meeting: 30 January 2018
Subject Matter: Development of the Internal Audit Plan
Originating Department: Corporate Assurance and Improvement

LIST OF BACKGROUND PAPERS

There are no background papers relating to this item.