Audit and Governance Committee

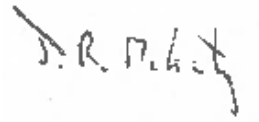
Meeting: Monday, 9th March 2020 at 6.30 pm in Civic Suite, North Warehouse, The Docks, Gloucester, GL1 2EP

Membership:	Cllrs. Melvin (Chair), Brooker (Vice-Chair), Bowkett, Hampson, Lugg, D. Norman, Taylor and Wilson
Contact:	Democratic and Electoral Services 01452 396126 democratic.services@gloucester.gov.uk

AGENDA

1.	**APOLOGIES** To receive any apologies for absence.
2.	**DECLARATIONS OF INTEREST** To receive from Members, declarations of the existence of any disclosable pecuniary, or non-pecuniary, interests and the nature of those interests in relation to any agenda item. Please see Agenda Notes.
3.	**MINUTES** (Pages 5 - 10) To approve as a correct record the minutes of the meeting held on 20th January 2020.
4.	**PUBLIC QUESTION TIME (15 MINUTES)** To receive any questions from members of the public provided that a question does not relate to: • Matters which are the subject of current or pending legal proceedings, or • Matters relating to employees or former employees of the Council or comments in respect of individual Council Officers
5.	**PETITIONS AND DEPUTATIONS (15 MINUTES)** To receive any petitions and deputations provided that no such petition or deputation is in relation to: • Matters relating to individual Council Officers, or • Matters relating to current or pending legal proceedings
6.	**GLOUCESTERSHIRE BUILDING CONTROL PARTNERSHIP INTERNAL AUDIT LIMITED ASSURANCE FOLLOW UP REPORT** (Pages 11 - 18)

7.	**TREASURY MANAGEMENT STRATEGY** (Pages 19 - 56) To consider the report of the Cabinet Member for Performance and Resources seeking to formally recommend that Council approves the Treasury Management Strategy, the prudential indicators and note the Treasury activities.
8.	**CAPITAL STRATEGY** (Pages 57 - 68) To consider the report of the Cabinet Member for Performance and Resources seeking Members to formally recommend that Council approves the Capital Strategy.
9.	**ANNUAL RISK MANAGEMENT REPORT 2019/20** (Pages 69 - 92) To consider the report of the Head of Audit Risk Assurance providing Members with an update on the Council's risk management activities from 2018/19.
10.	**INTERNAL AUDIT ACTIVITY 2019/20 - PROGRESS REPORT.** (Pages 93 - 118) To consider the report of the Head of Audit Risk Assurance updating Members of the Internal Audit activity progress in relation to the approved Internal Audit Plan 2019/20.
11.	**INTERNAL AUDIT PLAN 2020-21** (Pages 119 - 148) To consider the report of the Head of Audit Risk Assurance providing the Committee with a summary of the proposed Risk Based Internal Audit Plan 2018/2019 as required by the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards (PSIAS) 2017.
12.	**STRATEGIC RISK REGISTER** (Pages 149 - 168) To consider the report of the Head of Audit, Risk and Assurance.
13.	**ANNUAL REPORT OF THE AUDIT AND GOVERNANCE COMMITTEE** (Pages 169 - 182) To consider the Chair's annual report.
14.	**AUDIT AND GOVERNANCE COMMITTEE WORK PROGRAMME** (Pages 183 - 184) To consider the Work Programme.
15.	**DATE OF NEXT MEETING** 20th July 2020 at 6.30pm in the Civic Suite, North Warehouse.



Jon McGinty
Managing Director

Date of Publication: Friday, 28 February 2020

NOTES

Disclosable Pecuniary Interests
The duties to register, disclose and not to participate in respect of any matter in which a member has a Disclosable Pecuniary Interest are set out in Chapter 7 of the Localism Act 2011.

Disclosable pecuniary interests are defined in the Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012 as follows –

Interest	Prescribed description
Employment, office, trade, profession or vocation	Any employment, office, trade, profession or vocation carried on for profit or gain.
Sponsorship	Any payment or provision of any other financial benefit (other than from the Council) made or provided within the previous 12 months (up to and including the date of notification of the interest) in respect of any expenses incurred by you carrying out duties as a member, or towards your election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.
Contracts	Any contract which is made between you, your spouse or civil partner or person with whom you are living as a spouse or civil partner (or a body in which you or they have a beneficial interest) and the Council (a) under which goods or services are to be provided or works are to be executed; and (b) which has not been fully discharged
Land	Any beneficial interest in land which is within the Council's area. For this purpose "land" includes an easement, servitude, interest or right in or over land which does not carry with it a right for you, your spouse, civil partner or person with whom you are living as a spouse or civil partner (alone or jointly with another) to occupy the land or to receive income.
Licences	Any licence (alone or jointly with others) to occupy land in the Council's area for a month or longer.
Corporate tenancies	Any tenancy where (to your knowledge) – (a) the landlord is the Council; and (b) the tenant is a body in which you, your spouse or civil partner or a person you are living with as a spouse or civil partner has a beneficial interest
Securities	Any beneficial interest in securities of a body where – (a) that body (to your knowledge) has a place of business or land in the Council's area and (b) either – i. The total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or ii. If the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which you, your spouse or civil partner or person with

whom you are living as a spouse or civil partner has a beneficial interest exceeds one hundredth of the total issued share capital of that class.

For this purpose, "securities" means shares, debentures, debenture stock, loan stock, bonds, units of a collective investment scheme within the meaning of the Financial Services and Markets Act 2000 and other securities of any description, other than money deposited with a building society.

NOTE: the requirements in respect of the registration and disclosure of Disclosable Pecuniary Interests and withdrawing from participating in respect of any matter where you have a Disclosable Pecuniary Interest apply to your interests and those of your spouse or civil partner or person with whom you are living as a spouse or civil partner where you are aware of their interest.

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- You should proceed calmly; do not run and do not use the lifts;
- Do not stop to collect personal belongings;
- Once you are outside, please do not wait immediately next to the building; gather at the assembly point in the car park and await further instructions;
- Do not re-enter the building until told by a member of staff or the fire brigade that it is safe to do so.

AUDIT AND GOVERNANCE COMMITTEE

MEETING : Monday, 20th January 2020

PRESENT : Cllrs. Melvin (Chair), Bowkett, Hampson, Lugg, D. Norman, Taylor, Wilson and Williams

Others in Attendance
Corporate Director
Head of Policy and Resources
Head of Audit, Risk and Assurance
Accountancy Manager
Deloitte Representatives
Democratic and Electoral Services Team Leader

APOLOGIES : Cllrs. Brooker

14. DECLARATIONS OF INTEREST

14.1 There were no declarations of interest.

15. MINUTES

15.1 Councillor Wilson queried para 8.3 of the minutes and asked for clarification on those who were self-employed and had been paid travel expenses. The Head of Policy and Resources advised that this information would be circulated.

The following was subsequently circulated to Members:

The three individuals were two organists and the sword/mace bearer. When contracting these individuals, the Council agreed to pay their expenses when travelling to provide their service to the Council.

15.2 The Chair signed the minutes of the meeting which took place on 18 November 2019 as a correct record.

16. PUBLIC QUESTION TIME (15 MINUTES)

16.1 There were no public questions.

17. PETITIONS AND DEPUTATIONS (15 MINUTES)

17.1 There were no petitions or deputations.

18. DELOITTE AUDIT PLAN

18.1 The Chair welcomed two representatives from Deloitte, the Council's external auditor. They outlined that this was the second year Deloitte had been engaged and there was greater familiarity between both themselves and the Council.

18.2 It was stated that an audit had been undertaken in respect of materiality up to £2m and that, whilst there were other areas of audit interest, these were not significant at present.

18.3 The Chair asked, if there was a large pension fund, was there any reason the Council could not invest its own fund in property.

18.4 The Head of Policy and Resources advised that the Council did not directly control the pension fund. The Council was part of a new pool of which it was just one. The County Council's Pension Committee controlled the fund in accordance with each district's best interests.

18.5 **RESOLVED that: -** The Audit and Governance Committee **NOTE** the report.

19. AMEY STREETCARE CONTRACT MANAGEMENT - UPDATE REPORT

19.1 The Corporate Director outlined that work on the recommendations had been undertaken over a number of years. He advised that the paper in front of Committee was a management updated and the Internal Audit team would examine the actions taken.

19.2 The Corporate Director advised that the three recommendations (the Service Plan, the establishment of Key Performance Indicators and associated penalties and; audits to check compliance had all been complied with.

19.3 The Chair stated that she was pleased with the introduction of compliance checks and congratulated the team for all their work.

19.4 The Corporate Director provided an update on the contract more broadly. He advised that when the new recycling service (separate boxes for different recyclates) was rolled out, the was a compliance rate of approximately 90%. He further advised that it was now approximately 1% which was non-compliant.

19.5 Councillor Lugg queried these figures as she noted that many did not have two recycling boxes. The Corporate Director stated that different households took different approaches. Councillor Taylor noted that the 1% figure was an average across the city. In some areas, it would be high and in others, lower.

19.6 Councillor Williams asked how many older and disabled residents were receiving assisted collections. Councillor Melvin asked if information about assisted collections was circulated to social care teams to promote the service. The Corporate Director advised that this information would be circulated.

The following was circulated to Members after the meeting:

The total number of assisted collections was 359. Information regarding assisted collections had not been circulated to social care but can be done in the future.

19.7 Councillor Bowkett stated that some residents were without the internet or a smartphone. He also noted that some residents were registered blind and queried how these residents were informed of the changes to services. The Corporate Director advised that such information was communicated through a number of channels including radio.

19.8 Councillor Taylor asked when Internal Audit would be examining the actions taken. The Head of Internal Audit advised that testing could begin at any point but that it would be prudent for it to take place once the actions had been in place for a period of time.

19.9 **RESOLVED that: -** The Audit and Governance Committee **NOTE** the update.

20. INTERNAL AUDIT PURPOSE, AUTHORITY, ROLE AND FUNCTION

20.1 The Head of Audit, Risk and Assurance informed Members that public sector guidelines required local authorities to periodically report on Internal Audit's Purpose, Authority, Role and Function. She advised that a data analytics strategy had been developed and that entire populations of data could be examined. She informed Members that the charter had to be formally approved.

20.2 Councillor Wilson asked if the data analytics capabilities was being 'bought in' and expressed concern about resource implications. The Head of Audit, Risk and Assurance advised that there were three members of Internal Audit who were data analytics specialists. She added that it was being piloted at the County Council and that nothing extra was being purchased.

20.3 **RESOLVED that: -** The Audit and Governance Committee approve the Internal Audit Strategy, Data Analytics Strategy, Charter, Code of Ethics and Quality Assurance Improvement Programme.

21. ANNUAL GOVERNANCE STATEMENT 2018/19 IMPROVEMENT PLAN - PROGRESS REPORT

21.1 **RESOLVED that: -** The Audit and Governance Committee **NOTE** the report.

22. RISK MANAGEMENT POLICY AND STRATEGY 2020-23

22.1 The Head of Audit, Risk and Assurance highlighted key parts of the report. She advised that there had been no significant changes and that lots of work had been undertaken to embed risk management across the organisation.

22.2 **RESOLVED that: -** The Audit and Governance Committee **NOTE** the report.

23. INTERNAL AUDIT ACTIVITY PROGRESS REPORT 2019/20

23.1 The Head of Audit, Risk and Assurance outlined the limited assurance opinion on the building control shared service. She highlighted that it was not a failing but that internal audit recommended having the relevant management attend the next Committee meeting.

23.2 **RESOLVED that: -** (1) The Audit and Governance Committee **NOTE** the report and; (2) The Head of Place to attend the next Committee meeting in respect of the limited assurance opinion on the building control shared service.

24. OUTSIDE BODIES DRAFT REPORT

24.1 The Corporate Director outlined that a working group to examine the contribution made by Members appointed to outside bodies had been commissioned in the summer. He advised that a survey and interviews had been undertaken and representatives from two bodies had appeared at Committee. The Corporate Director stated that there was a mixed response. Some were very supportive of the Council's involvement and for others, the Council had historically appointed Members and that this had not changed.

24.2 The Corporate Director informed Members that feedback had suggested that the processes in place did not allow for a meaningful dialogue. He also suggested that there was worked to be done in clarifying expectations as to what each body expected from appointees.

24.3 The Corporate Director suggested that a discussion take place regarding whether the Council should continue to appoint to some bodies and if there were other ways to engage and show support. He suggested that formally appointing be retained where there was a benefit. The Corporate Director also mooted the establishment of a protocol of what was expected and what commitment was required as well as Members reporting to Council on their and the bodies' work.

24.4 Councillor Wilson, who was a member of the working group, agreed that the response was very mixed and that a key element was the characterization of the work involved. He suggested that a protocol be drawn up.

24.5 Councillor D. Norman, another member of the working group, stated that there was a two-way onus on training for appointees. Councillor Hampson, also of the working group, stated that it was important that Members were made aware of their obligations as an appointee.

24.6 **RESOLVED that: -** (1) The Audit and Governance Committee **NOTE** the report.

25. REVISED TERMS OF REFERENCE AND APPOINTMENT OF AN INDEPENDENT MEMBER

25.1 The Head of Audit, Risk and Assurance advised that a review was undertaken in mid-2019 in line with recent CIPFA guidance. This recommended the co-option of an Independent Member to the Audit and Governance Committee. She suggested that it would be beneficial to do so and that it reinforced political neutrality. The Head of Audit, Risk and Assurance highlight the recommendation that the next Chair of the Committee not be a Member of the administration group.

25.2 Councillor D. Norman noted that the Independent Remuneration Panel did not receive an allowance and that one of the recommendations was that the proposed Independent Member receive an allowance. He asked whether this might be queried. The Corporate Director advised that, while there was a disparity, this was justified as it would be regular work.

25.3 Councillor H. Norman proposed that, if the recommendations were approved, it be clarified that they would take effect from 2020/21.

25.4 **RESOLVED that: -** The Audit and Governance Committee **RECOMMEND** to Council:

(1) That, with effect from the Civic Year 2020/21, an Independent Member is co-opted on to the Audit and Governance Committee on a non-voting basis;

(2) That the appointment of the Independent Member is delegated to the Audit and Governance Committee;

(3) That the process for selecting and recommending an appropriate candidate is delegated to the Head of Policy and Resources in consultation with the Chair of Audit and Governance Committee;

(4) That, with effect from the Civic Year 2020/21, the Chair of the Audit and Governance Committee shall not be a member of the political group or groups forming the administration; and

(5) That the Audit and Governance Committee's Terms of Reference as set out in Attachment 1 (Appendix 2) be approved.

26. COUNCILLOR AND EMPLOYEE CODES OF CONDUCT AND RELATED PROTOCOL ON COUNCILLOR/EMPLOYEE RELATIONS

26.1 The Corporate Director provided the update report following internal audit activity. He outlined that new staff would receive the appropriate employee codes following a review and simplification of the codes. The proposals were

supported by the General Purposes Committee and would be discussed with the trade unions. The Corporate Director also highlighted a particular change which would require a Member who had declared an interest to leave the room.

26.2 **RESOLVED that: -** The Audit and Governance Committee **APPROVE** the recommendations to Council as contained within the report.

27. AUDIT AND GOVERNANCE COMMITTEE WORK PROGRAMME

27.1 The Committee considered the work programme. The Head of Policy and Resources advised Members that KPMG no longer provided a grants report to the Council. He stated that, if there was an auditing issue in respect of Housing Benefit, this would be reported but that there were no such issues.

27.2 **RESOLVED that: -** The Work Programme be noted.

28. DATE OF NEXT MEETING

Monday 9 March 2020 at 6.30pm in the Civic Suite, North Warehouse.

Time of commencement: 6.30 pm hours
Time of conclusion: 7.20 pm hours

Chair

Report to the Audit and Governance Committee 9th March 2020 on the actions taken in relation to key recommendations made in the Gloucestershire Building Control Partnership Internal Audit report

Lead and presenting officer: Ian Edwards, Head of Place

Summary of Audit Area

Stroud District Council (SDC) and Gloucester City Council provide a shared building control service known as the Gloucestershire Building Control Partnership (GBCP). The GBCP was established on 1st July 2015 under a Section 101 Agreement, with staff being employed by SDC acting as the host authority. The Building Control function comprises:

- Plan vetting and inspection of applications, which is a statutory council function in direct competition with the private sector. The financial arrangements for this service are separate from the authority's general fund and the financial accounts are known as the 'trading' account; and
- Enforcement of Building Regulations and legislation, whose financial arrangements are borne by an authority and are known as the 'non-trading' account.

Summary Terms of Reference of the Audit

The detailed audit objectives were to provide assurance that:

- There is effective governance, risk management and monitoring arrangements in place to confirm that the partnership is being managed effectively and that it achieves its main aims and objectives;
- The fees have been correctly determined, approved and comply with regulations;
- The costs of the service are correctly determined / calculated and apportioned to the partners; and
- Recommendations raised in the 2016-17 audit review have been implemented or there is an approved action plan to show how and when they will be implemented.

Risks

- Ineffective governance arrangements resulting in a lack of transparency, ownership and non-performance of the function;
- The original agreed aims and objectives of the GBCP are not achieved resulting in poor customer service, financial losses and dissolution of the partnership;
- Inaccurate management information and / or apportionment of the costs or surplus of the service are incorrectly determined resulting in fundamental disagreements with the partners and / or financial losses;
- Disproportionate fees are charged in relation to the cost of the service resulting in non-compliance with regulations and / or a greater financial burden on the General Fund to support the service;
- Non-compliance with regulations leading to reputational damage resulting in a loss of confidence and business from customers; and
- Agreed recommendations from the 2016-17 audit may not have been implemented resulting in a lack of improvement in risk management and the control environment.

Key Findings

The GBCP has maintained and consolidated its market share (approximately 76% for the period 2016-17 to 2018-19) of building control application numbers and the number of customer complaints is at low levels (under 10 per year representing less than 1% of applications) providing some indication that the day to day operational performance of the shared service is being managed satisfactorily.

Since the formation of the GBCP it has, year on year, made a surplus which as at 31st March 2019 represents a balance on the ‘trading’ account reserve account of £224,000. However, this financial position is not in accordance with the overriding objective of the Building (Local Authority Charges) Regulations 2010 Statutory Instrument No. 404 (Building Regulations) and The Chartered Institute of Public Finance and Accountancy (CIPFA) guidance which states that income and costs should achieve a 'break even' position normally over a rolling period of three to five years (**see recommendation 3**).

Budget projections for 2019-20 and 2020-21 recently performed by GBCP and host partner Finance function indicates there will be a significant reduction in the 2018-19 reserve account surplus.

The review of the Section 101 Agreement against the actual operation and management of the GBCP highlighted non-compliance with the key documented terms and commitments. The main area of non-compliance was the absence of the regular quarterly Shared Service Board meetings (only one confirmed meeting since the previous audit in 2016-17 to July

2019) to jointly and effectively manage the financial position, risks and performance of the shared service (**see recommendations 1 and 2**).

The regulations require that a financial statement (setting out the costs, income and any surplus or deficit position) is published at the end of each financial year. However, Internal Audit identified that since its formation the GBCP has not made this information available to the public (**see recommendation 4**).

Other issues identified by Internal Audit related to the lack of regular completion of timesheets by officers, inappropriate cost apportionment method, lack of a data owner, no independent oversight of the monthly income reconciliation and incomplete income debt recovery processes (**see recommendations 5, 6, 7, 8 and 9**).

Action(s) taken to implement the recommendations as at 12th February 2020 and / or proposed

High priority recommendation 1: Requirements of the Section 101 Agreement	Original management response
A full review of the Section 101 Agreement should be undertaken to ensure that the requirements within this document still remain appropriate to effectively manage and develop the GBCP. Where such requirements / expectations are not now required, an appropriate variation(s) to the Section 101 Agreement should be discussed and approved by the Shared Service Board. The requirements in the original / revised Section 101 Agreement should then be fully complied with.	To extend and update the 101 Agreement with changes in place by the 29th June 2020. **Completion date:** June 2020
Management update as at 12th February 2020:	
Ongoing. Amendments to s101 agreed at GBCP Board on 31st January 2020 for inclusion in a revised s101 effective 29th June 2020.	

High priority recommendation 2: GCityC role in GBCP	Original management response
GCityC Shared Service Board members should take an active role in the GBCP, in accordance with the Section 101 Agreement, to confirm its interests and commitments are achieved.	GCityC will actively participate in updating the 101 Agreement and attendance at Board meetings. **Completion date:** June 2020
Management update as at 12th February 2020:	

Ongoing.

Ian Edwards (Head of Place) and Greg Maw (Accountancy Manager) representing GCC at GBCP Board meetings and quorum requires one to be attending every meeting. Board meeting on 31st January 2020 agreed amendments to s101 agreement.

High priority recommendation 3: 'Trading' reserve account financial position	**Original management response**
A review of the 'trading' account reserve balance, building control fees and the forecast of future income and expenditure commitments should be undertaken, and a report with recommendations made to the Shared Services Board to ensure that the Building Regulations 'overriding objective' is achieved. Following this review, regular reviews should be performed in accordance with the Building Regulations and Section 101 Agreement by the Shared Services Board to ensure that the 'overriding objective' is maintained.	The 'trading' account reserve will be reported to the Shared Service Board in January 2020 for a decision on any corrective action required. **Completion date:** January 2020
Management update as at 12th February 2020:	
Achieved. Trading account considered at GBCP Board on 31st January 2020 with the Board satisfied that the 'surplus' would be significantly reduced due to the 2019/20 budget forecasting a shortfall of £115k. Future meetings to review the position.	

High priority recommendation 4: GBCP financial statement	Original management response
A financial statement for the GBCP 'trading' account should be published in accordance with the Building Regulations.	A 'trading' account is to be published for 2017-18 and 2018-19 on the GBCP website. **Completion date:** November 2019
Management update as at 12th February 2020:	
Achieved. Financial statements have been published on the GBCP website	

Medium priority recommendation 5: Timesheets	Original management response
Building Control officers should complete timesheets on a regular basis (at least quarterly) to record time spent on Building Regulations chargeable and non-chargeable services to enable an accurate apportionment of salaried and internal support charge costs between the two services, and provide a transparent and robust basis for distribution of the costs.	Work type timesheets will be carried out over a month, twice a year and presented to the Board as evidence of cost apportionment. **Completion date:** January 2020
Management update as at 12th February 2020:	
Achieved. The Board agreed to a twice-yearly timesheet exercise being carried out in November and May to confirm the fee earning to non-fee earning split for percentages. GBCP Board was satisfied that the exercise undertaken in November 2018 supported the current basis of cost apportionment.	

Medium priority recommendation 6: Apportionment of costs	Original management response
A review of the basis for apportioning costs for the 'non-trading' account between SDC and GCityC should be undertaken and a revised method used to determine the costs between the two authorities that better reflects a fair, proportionate and accurate measure.	To be investigated by the Board. The cost of determining costs attributed to each non-fee earning project would add cost, which may exceed the benefit of the recommendation. **Completion date:** January 2020
Management update as at 12th February 2020:	
The Board discussed the apportionment of Dangerous Structures and Demolition and was of the opinion that the cost/time for this approach outweighed the benefit to the Partnership. The Board did not agree the recommendation and decided to maintain the formula set out in the s101.	

Medium priority recommendation 7: Data owner	Original management response
A data owner for the Building Control systems should be determined. In addition the data owner should ensure that any future changes to the systems have been properly tested, documented and results of the tests are satisfactory before formally approving the update to the 'live' environment.	Data owner is to be the SDC Building Control Manager to ensure testing has been carried out before going live with upgrades. **Completion date:** November 2019
Management update as at 12th February 2020:	
Achieved. The Board agreed that the data owner will be the Head of Building Control for the GBCP.	

Medium priority recommendation 8: Review of monthly income reconciliation	Original management response
The SDC Building Control Manager should undertake a review of the monthly income reconciliation to confirm completed promptly, balanced and any identified differences are being investigated and that there are no long outstanding items.	Monthly meetings with the SDC Team Leader Building Control are to be held regarding income reconciliation and documented. **Completion date:** December 2019
Management update as at 12th February 2020:	
Achieved. The Board agreed that Head of Building Control for the GBCP would review monthly income reconciliations.	

Medium priority recommendation 9: Debt recovery process	Original management response
The Shared Services Board should review and update the debt recovery process, reporting requirements and obtain approval from the appropriate Section 151 Officers for the agreed arrangements.	The debt recovery process is operated by SDC. The Board will be updated on long standing debts with the knowledge that completion certificates are not issued unless payment has been received. **Completion date:** Completed
Management update as at 12th February 2020:	
Achieved. The Board agreed that SDC's debt recovery process would be followed and that long standing debts would be reported to the Board for action and not the s151 officer. The s101 is to be varied to reflect this.	

Gloucester City Council

Meeting:	**Audit & Governance Committee**	**Date:**	**9th March 2020**
	Cabinet		**11th March 2020**
	Council		**26th March 2020**
Subject:	**Treasury Management Strategy 2020/21**		
Report Of:	**Cabinet Member for Performance and Resources**		
Wards Affected:	**All**		
Key Decision:	**No**	**Budget/Policy Framework:**	**Yes**
Contact Officer:	**Jon Topping, Head of Policy and Resources**		
	Email: jon.topping@gloucester.gov.uk	**Tel: 396242**	
Appendices:	**1. Treasury Management Strategy 2020/21**		

1.0 Purpose of Report

1.1 To formally recommend that Council approves the attached Treasury Management Strategy, the prudential indicators and note the Treasury activities.

2.0 Recommendations

2.1 Audit and Governance Committee is asked to **RECOMMEND** that the Treasury Management Strategy be approved.

2.2 Council is asked to **RESOLVE** that:

(1) The Treasury Management Strategy at Appendix 1 be approved;

(2) The authorised borrowing limit be approved at:-
a) 2020/21 £150m
b) 2021/22 £150m
c) 2022/23 £150m

(3) The prudential indicators set out in section two of the strategy be approved.

3.0 Background and Key Issues

3.1 The Council's Treasury position changed in 2019-20 as the Property Investment Board secured its first investments. In purchasing the Eastgate Centre and St Oswald's retail park the Council increased its borrowing requirements, but receives rental income which more than matches the

charge on the debt. These long term investments will significantly change the treasury position of the Council over the life of the investments, creating investable cashflow streams.

3.2 The Council has continued to support partners to further its strategic objectives. In 2019-20, the Council provided long term loans to Gloucester Wildlife Trust (GWT) and Cheltenham YMCA, these loans provide an income stream to the Council while in the case of the YMCA provide nomination rights to assist the Council housing objectives. The loan to GWT supports grant funding to realise the long term objective of a new visitor centre at Robinswood Hill. The Council will continue to look at these social investments as a delivery mechanism to support its wider strategic objectives.

3.3 The 2020/21 treasury management strategy recommends to continue operating within an under-borrowing position. This position reflects that the Council uses internal resources, such as reserves, to fund the borrowing need rather than invest those funds for a return. This strategy is sensible, at this point in time, for two reasons. Firstly, the lost interest on those funds is significantly less than the costs of borrowing money for the capital programme. In addition, using the resources to reduce debt the Council will reduce exposure to investment counterparty risk. If an opportunity arises for commercial investment the under borrowing position will allow the Council the headroom to borrow funds for a purchase up to the under borrowing level.

3.4 There will be cash flow balances that will be invested for short periods within the year. Section 4 of the strategy outlines the Annual Investment Strategy; in particular it outlines the creditworthiness policy through the use of credit ratings.

3.5 The borrowing strategy is to utilise investments to reduce short term borrowing. Once investments have been applied it is anticipated that the majority of new debt will be short term as the current market rates are attractive. Where the capital programme, or investment strategy, requires the creation of long-term investment need then some long term borrowing is likely to be undertaken to take advantage of low rates and mitigate the risk presented by having all borrowing on short-term deals.

3.6 The strategy allows flexibility for either debt rescheduling or new long term fixed rate borrowing while allowing the Council to benefit from lower interest rates on temporary borrowing at the current time.

3.7 The strategy also includes the minimum revenue provision (MRP) policy statement. This policy continues with the practice approved last year. MRP is the revenue charge to reduce debt by placing a charge on the General Fund each year. The preferred option is to provide for the borrowing need created over the approximate life of the asset purchased. This is achieved with an annuity calculation which provides a consistent overall annual borrowing charge with the level of principal (MRP) increasing each year, much like a repayment mortgage.

4.0 Alternative Options Considered

4.1 The following two options have been considered:

As a result of the PWLB adding 100bps to their rates in October 2019, the market has become more attractive to alternative long term lenders. This market is in its infancy and options will continue to develop as an alternative to the PWLB. The Council will continue to actively investigate such opportunities as part of any future long term investment appraisals as well as current options in the market for long term funding, including the municipal bonds agency, private bonds and other sources of funding deemed appropriate for the Council to utilise.

There remains the option to replace existing short term borrowing with longer term options, this is not as attractive due to the availability of short term funding which remains significantly below rates available for longer term funds.

5.0 Reasons for Recommendations

5.1 As outlined in the legal implications the recommendations require Council approval. The Treasury and Investment Strategies recommended provide the best platform for financing the long-term capital programme and managing daily cash flow whilst protecting Council funds.

6.0 Future Work and Conclusions

6.1 The Treasury Management Strategy provides a logical basis to fund the Council's capital financing requirement and long-term Capital Programme. The Council will continue to monitor the strategy and is prepared to adapt this strategy if there is changes within the markets.

7.0 Financial Implications

7.1 The expenditure and income arising from treasury management activities are included within the Council Money Plan.

8.0 Social Value Considerations

8.1 This report notes the Treasury Strategy of the Council. There are no anticipated Social Value implications from this report.

9.0 Legal Implications

9.1 The Council is required to have a Treasury Management Strategy to meet the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG Minimum Revenue Provision Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

10.0 Risk & Opportunity Management Implications

10.1 There is a risk that short term and long term interest rates could increase and this will be monitored both in-house and by the Council Treasury Management Advisor, Link Asset Services. In this event the risk will be managed through the opportunities either to reschedule debt or new long term fixed rate borrowing in place of short term borrowing.

10.2 The risk of deposits not being returned by the counterparty is minimised by only investing short term cash flow monies with counterparties on the approved lending list. All counterparties on this list meet minimum credit rating criteria, ensuring the risk is kept extremely low although not eliminated.

11.0 People Impact Assessment (PIA):

11.1 A PIA screening assessment has been undertaken and the impact is neutral. A full PIA is not required.

12.0 Other Corporate Implications

Community Safety

12.1 None

Sustainability

12.2 None

Staffing & Trade Union

12.3 None

Background Documents: Local Government Act 2003
CIPFA Treasury Management Code
CIPFA Prudential Code
MHCLG MRP Guidance

Appendix 1

Treasury Management Strategy 2020/21

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

CIPFA defines treasury management as:

> *"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

Revised reporting is required for the 2019/20 reporting cycle due to revisions of the MHCLG Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy is being reported separately.

1.2 Reporting requirements

1.2.1 Capital Strategy

The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019-20, all local authorities to prepare an additional report, a capital strategy report, which will provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The capital strategy will show:

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution;
- The debt related to the activity and the associated interest costs;
- The payback period (MRP policy);
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.

Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to.

If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy.

To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout this report.

1.2.2 Treasury Management reporting

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

A mid-year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny
The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken at Gloucester by the Audit and Governance Committee.

1.3 Treasury Management Strategy for 2020/21

The strategy for 2020/21 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
- the policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Finance training for members, including Treasury Management, is scheduled to feature in the member development programme during 2020/21

The training needs of treasury management officers are periodically reviewed and staff have attended training and seminars during 2019/20 and will continue to do so in the upcoming year.

1.5 Treasury management consultants

The Council uses Link Asset Services, Treasury solutions as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties. The commercial type investments require specialist advisers, and the Council uses such advisors on a case by case basis in relation to this activity.

2 THE CAPITAL PRUDENTIAL INDICATORS 2020/21 – 2022/23

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the 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 are asked to approve the capital expenditure forecasts. These forecasts have had £10m added in 2020/21 to reflect the impact of the Property Investment Strategy.

Capital expenditure £m	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Policy & Resources	2.061	72.777	4.204	0.150	0.150
Place	5.358	2.341	14.214	0.160	0.080
Communities	0.498	0.635	0.897	0.494	0.494
Culture & Trading	0.038	0.015	0.204	0.000	0.045
Total	**7.955**	**75.768**	**19.519**	**0.804**	**0.769**

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.

Financing of capital expenditure £m	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Capital receipts	0.491	3.650	4.550	0.230	0.275
Capital grants	3.958	0.955	0.969	0.574	0.494
Capital reserves	0.000	0.000	0.000	0.000	0.000
Revenue	0.328	0.145	0.000	0.000	0.000
Net borrowing need for the year	**3.178**	**71.018**	**14.000**	**0.000**	**0.000**

The above financing need excludes other long term liabilities, such as leasing arrangements which already include borrowing instruments. This is is the situation with the Council's property deal at Kings Walk which creates a long term lease financing liability as a result of the commitment to an agreed rental payment

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 indebtedness and so its 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 indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types

of scheme include a borrowing facility by the PFI, PPP lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has £20.17m of such schemes within the CFR.

The Council is asked to approve the CFR projections below:

£m	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Capital Financing Requirement					
Total CFR	**45.032**	**114.343**	**126.207**	**124.176**	**122.186**
Movement in CFR	**19.361**	**69.311**	**11.864**	**-2.031**	**-1.990**

Movement in CFR represented by					
Net financing need for the year (above)	19.890	71.018	14.000	0.000	0.000
Kings Walk Lease Liability	0	0.370	0.363	0.356	0.347
Less MRP/VRP and other financing movements	(0.529)	(2.077)	(2.499)	(2.387)	(2.337)
Movement in CFR	**19.361**	**69.311**	**11.864**	**-2.031**	**-1.990**

2.3 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 ongoing 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 £m	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Fund balances / reserves	6.241	5.800	7.700	7.500	8.500
Capital receipts	0.479	0.500	2.500	1.000	0.500
Provisions	1.917	2.000	2.000	2.000	2.000
Other (Grants)	6.780	2.000	2.000	2.000	2.000
Total core funds	**15.417**	**10.800**	**14.200**	**12.500**	**13.000**
Working capital*	(3.654)	4.000	4.000	4.000	4.000
Under/over borrowing**	(4.191)	(4.561)	(4.924)	(5.280)	(5.627)
Expected investments	**7.572**	**2.239**	**5.276**	**3.220**	**3.373**

*Working capital balances shown are estimated year-end; these will vary in year

2.4 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).

MHCLG 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 capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Existing practice** - MRP will follow the existing practice outlined in former MHCLG regulations (option 1) This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

From 1 April 2008 for all unsupported borrowing (including finance leases) the MRP policy will be

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations

Repayments included in finance leases and loan principal are applied as MRP.

MRP Overpayments - A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2019 the total VRP overpayments were £1.359m.

3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. 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 and the Council's capital strategy. 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 2019 with forward projections, is 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.

£m	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
External Debt					
Debt at 1 April	37.542	40.841	109.782	121.283	118.896
Expected change in Debt	3.579	69.311	11.864	-2.031	-1.990
Other long-term liabilities (OLTL)	19.890	20.170	20.540	20.903	21.259
Expected change in OLTL	0.280	0.370	0.363	0.356	0.347
Actual gross debt at 31 March	**40.841**	**109.782**	**121.283**	**118.896**	**116.559**
The Capital Financing Requirement	**45.032**	**114.343**	**126.207**	**124.176**	**122.186**
Under / (over) borrowing	**4.191**	**4.561**	**4.924**	**5.280**	**5.627**

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 2020/21 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 or speculative purposes.

The Head of Policy and Resources 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 and the ability to fund under-borrowing by other cash resources.

Operational boundary £m	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Debt	105	110	110	110
Other long term liabilities	25	25	25	25
Total	130	135	135	135

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:

Authorised limit £m	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Debt	110	115	115	115
Other long term liabilities	35	35	35	35
Total	145	150	150	150

3.3 Prospects for interest rates

The Council has appointed Link 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.

Link Asset Services Interest Rate View	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.60	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.20	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.10	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

The above forecasts have been based on an assumption that there is an agreed deal on Brexit, including agreement on the terms of trade between the UK and EU, at some point in time. The result of the general election has removed much uncertainty around this major assumption. However, it does not remove uncertainty around whether agreement can be

reached with the EU on a trade deal within the short time to December 2020, as the prime minister has pledged.

It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit and the outcome of the general election. In its meeting on 7 November, the MPC became more dovish due to increased concerns over the outlook for the domestic economy if Brexit uncertainties were to become more entrenched, and for weak global economic growth: if those uncertainties were to materialise, then the MPC were likely to cut Bank Rate. However, if they were both to dissipate, then rates would need to rise at a "gradual pace and to a limited extent". Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. There is still some residual risk that the MPC could cut Bank Rate as the UK economy is still likely to only grow weakly in 2020 due to continuing uncertainty over whether there could effectively be a no deal Brexit in December 2020 if agreement on a trade deal is not reached with the EU. Until that major uncertainty is removed, or the period for agreeing a deal is extended, it is unlikely that the MPC would raise Bank Rate.

Bond yields / PWLB rates. There has been much speculation during 2019 that the bond market has gone into a bubble, as evidenced by high bond prices and remarkably low yields. However, given the context that there have been heightened expectations that the US was heading for a recession in 2020, and a general background of a downturn in world economic growth, together with inflation generally at low levels in most countries and expected to remain subdued, conditions are ripe for low bond yields. While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last thirty years. We have therefore seen over the last year, many bond yields up to ten years in the Eurozone actually turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby ten-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated, as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities. However, stock markets are also currently at high levels as some investors have focused on chasing returns in the context of dismal ultra-low interest rates on cash deposits.

During the first half of 2019-20 to 30 September, gilt yields plunged and caused a near halving of longer term PWLB rates to completely unprecedented historic low levels. *(See paragraph 3.7 for comments on the increase in the PWLB rates margin over gilt yields of 100bps introduced on 9.10.19.)* There is though, an expectation that financial markets have gone too far in their fears about the degree of the downturn in US and world growth. If, as expected, the US only suffers a mild downturn in growth, bond markets in the US are likely to sell off and that would be expected to put upward pressure on bond yields, not only in the US, but also in the UK due to a correlation between US treasuries and UK gilts; at various times this correlation has been strong but at other times weak. However, forecasting the timing of this, and how strong the correlation is likely to be, is very difficult to forecast with any degree of confidence. Changes in UK Bank Rate will also impact on gilt yields.

One potential danger that may be lurking in investor minds is that Japan has become mired in a twenty-year bog of failing to get economic growth and inflation up off the floor, despite a combination of massive monetary and fiscal stimulus by both the central bank and government. Investors could be fretting that this condition might become contagious to other western economies.

Another danger is that unconventional monetary policy post 2008, (ultra-low interest rates plus quantitative easing), may end up doing more harm than good through prolonged use. Low interest rates have encouraged a debt-fuelled boom that now makes it harder for central banks to raise interest rates. Negative interest rates could damage the profitability of commercial banks and so impair their ability to lend and / or push them into riskier lending. Banks could also end up holding large amounts of their government's bonds and so create a potential doom loop. (A doom loop would occur where the credit rating of the debt of a nation was downgraded which would cause bond prices to fall, causing losses on debt portfolios held by banks and insurers, so reducing their capital and forcing them to sell bonds – which, in turn, would cause further falls in their prices etc.). In addition, the financial viability of pension funds could be damaged by low yields on holdings of bonds.

The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.

In addition, PWLB rates are subject to ad hoc decisions by **H.M. Treasury** to change the margin over gilt yields charged in PWLB rates: such changes could be up or down. It is not clear that if gilt yields were to rise back up again by over 100bps within the next year or so, whether H M Treasury would remove the extra 100 bps margin implemented on 9.10.19.

Economic and interest rate forecasting remains difficult with so many influences weighing on UK gilt yields and PWLB rates. 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.

Investment and borrowing rates

- Investment returns are likely to remain low during 2020/21 but to be on a gently rising trend over the next few years.
- Borrowing interest rates were on a major falling trend during the first half of 2019-20 but then jumped up by 100 bps on 9.10.19. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. However, the unexpected increase of 100 bps in PWLB rates requires a major rethink of local authority treasury management strategy and risk management and has the potential to impact future capital projects. The Council will continue to investigate borrowing opportunities within the market as new lenders enter the market as a result of the PWLB rates increase.
- While this authority will not be able to avoid borrowing to finance new capital expenditure, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new short or medium-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

3.4 Borrowing strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt

as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 treasury operations. The Head of Policy and Resources 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 an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

3.5 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.

3.6 Debt rescheduling

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as the 100 bps increase in PWLB rates only applied to new borrowing rates and not to premature debt repayment rates.

All rescheduling will be reported to Cabinet at the earliest meeting following its action. The Council has recently taken long term loans and there is no current rescheduling planned.

3.7 New financial institutions as a source of borrowing and / or types of borrowing

Following the decision by the PWLB on 9 October 2019 to increase their margin over gilt yields by 100 bps to 180 basis points on loans lent to local authorities, consideration will also need to be given to sourcing funding at cheaper rates from the following:

- Local authorities (primarily shorter dated maturities)
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of spot or forward dates)
- Municipal Bonds Agency (no issuance at present but there is potential)

The degree which any of these options proves cheaper than PWLB Certainty Rate is still evolving at the time of writing but our advisors will keep us informed.

3.8 Approved Sources of Long and Short term Borrowing

On Balance Sheet	Fixed	Variable
PWLB	●	●
Municipal bond agency	●	●
Local authorities	●	●
Banks	●	●
Pension funds	●	●
Insurance companies	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Local authority bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Finance leases	●	●

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy

The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

The Council's investment policy has regard to the following: -

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

2. **Other information:** ratings will not be the sole determinant of the quality of an institution; 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 achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.

3. **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.

4. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix 5.4 under the categories of 'specified' and 'non-specified' investments.

    - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
    - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2.

6. **Transaction limits** are set for each type of investment in 4.2.

7. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 4.4).

8. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).

9. This authority has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

10. All investments will be denominated in **sterling**.

11. As a result of the change in accounting standards for 2019/20 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the Ministry of Housing, Communities and Local Government, [MHCLG], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1.4.18.)

However, this authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.5). Regular monitoring of investment performance will be carried out during the year.

4.2 Creditworthiness policy

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

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

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

- Yellow 5 years *
- Dark pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

The Link Asset Services' creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

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

All credit ratings will be monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services' creditworthiness service.

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

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on any external support for banks to help support its decision making process.

UK banks – ring fencing

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

	Colour (and long term rating where applicable)	Money and/or % Limit	Time Limit
Banks *	yellow	£10m	5yrs
Banks	purple	£10m	2 yrs
Banks	orange	£10m	1 yr
Banks – part nationalised	blue	£10m	1 yr
Banks	red	£10m	6 mths
Banks	green	£10m	100 days
Banks	No colour	Not to be used	
Limit 3 category – Council's banker (where "No Colour")	Barclays Bank	100 %	1 day
Other institutions limit	A-	£10m	6 months
DMADF	UK sovereign rating	unlimited	6 months
Local authorities	n/a	100%	1yrs
	Fund rating	Money and/or % Limit	Time Limit
Money Market Funds CNAV	AAA	£10m	liquid
Money Market Funds LVNAV	AAA	£10m	liquid
Money Market Funds VNAV	AAA	£10m	liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	Dark pink / AAA	£10m	liquid

Ultra-Short Dated Bond Funds with a credit score of 1.50	**Light pink / AAA**	**£10m**	**liquid**

4.3 Country limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch or equivalent. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 6.4. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

4.4 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). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectations.
On the assumption that the UK and EU agree a Brexit deal including the terms of trade by the end of 2020 or soon after, then Bank Rate is forecast to increase only slowly over the next few years to reach 1.00% by quarter 1 2023. Bank Rate forecasts for financial year ends (March) are:

- Q1 2021 0.75%
- Q1 2022 1.00%
- Q1 2023 1.25%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

2019/20	0.75%
2020/21	0.75%
2021/22	1.00%
2022/23	1.25%
2023/24	1.50%
2024/25	1.75%
Later years	2.25%

- The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.

- In the event that a Brexit deal is agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

Investment treasury indicator and limit - total principal funds invested for greater than 365 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 following treasury indicator and limit:

Maximum principal sums invested over 365 days			
£m	**2019/20**	**2020/21**	**2021/22**
Principal sums invested over 365 days	£30m	£30m	£30m

4.5 Investment risk benchmarking

These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or Annual Report.
Security - The Council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- **5% historic risk of default when compared to the whole portfolio.**

Liquidity – in respect of this area the Council seeks to maintain:

- Bank overdraft - £0m
- Liquid short term deposits of at least £5m available with a week's notice.
- Weighted average life benchmark is expected to be 25 years, with a maximum of 40 years.

Yield - local measures of yield benchmarks are:

- Investments – internal returns above the 7 day LIBID rate
- Investments – external fund managers - returns 110% above 7 day compounded LIBID.

And in addition that the security benchmark for each individual year is:

	1 year	2 years	3 years	4 years	5 years
Maximum	**5%**	**5%**	**5%**	**5%**	**5%**

Note: This benchmark is an average risk of default measure, and would not constitute an expectation of loss against a particular investment.

4.6 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.

5.1 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2019/20 – 2021/22

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

5.1.1 Capital expenditure

Capital expenditure £m	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Policy & Resources	2.061	72.777	4.204	0.150	0.150
Place	5.358	2.341	14.214	0.160	0.080
Communities	0.498	0.635	0.897	0.494	0.494
Culture & Trading	0.038	0.015	0.204	0.000	0.045
Total	**7.955**	**75.768**	**19.519**	**0.804**	**0.769**

5.1.2 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. The Council is asked to approve the following indicators:

a. Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

%	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
	13.59%	12.08%	24.50%	24.25%	24.83%

The estimates of financing costs include current commitments and the proposals in this budget report.

The current figures are largely the result of the Kings Walk investment, rental payments for the King's Walk lease are counted as financing expenditure as they pay off the lease liability included within the CFR. Rental payments received from retailers within Kings Walk will cover these financing costs.

The increases from 2020/21 are related to sums borrowed for the Investment Strategy and include the purchase of St Oswald's retail park.

4.3.1 Maturity structure of borrowing

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:

Maturity structure of fixed and variable interest rate borrowing 2018/19		
	Lower	**Upper**
Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years and above	0%	100%

5.1.5. Control of interest rate exposure

Please see paragraphs 3.3, 3.4 and 4.4.

6 APPENDICES

1. Interest rate forecasts
2. Economic background
3. Treasury management practice 1 – credit and counterparty risk management (option 1)
4. Approved countries for investments
5. Treasury management scheme of delegation
6. The treasury management role of the section 151 officer

6.1 INTEREST RATE FORECASTS 2019 – 2022

Link Asset Services Interest Rate View	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.80	0.80	0.90	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.90	1.00	1.00	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	0.90	0.90	1.00	1.10	1.20	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.30	2.40	2.40	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.00	3.10
10yr PWLB Rate	2.50	2.50	2.60	2.60	2.70	2.80	2.90	3.00	3.10	3.10	3.20	3.20	3.30
25yr PWLB Rate	3.00	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.70	3.80	3.80	3.90	3.90
50yr PWLB Rate	2.90	2.90	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.70	3.70	3.80	3.80
Bank Rate													
Link Asset Services	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.25%
Capital Economics	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	-	-	-	-	-
5yr PWLB Rate													
Link Asset Services	2.30%	2.30%	2.40%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%
Capital Economics	2.40%	2.50%	2.50%	2.60%	2.60%	2.80%	2.80%	2.90%	-	-	-	-	-
10yr PWLB Rate													
Link Asset Services	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%
Capital Economics	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.00%	3.10%	-	-	-	-	-
25yr PWLB Rate													
Link Asset Services	3.00%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.80%	3.90%	3.90%
Capital Economics	3.10%	3.10%	3.20%	3.20%	3.20%	3.30%	3.30%	3.40%	-	-	-	-	-
50yr PWLB Rate													
Link Asset Services	2.90%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.80%
Capital Economics	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.40%	3.50%	-	-	-	-	-

PWLB rates and forecast shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

6.2 ECONOMIC BACKGROUND

UK. Brexit. 2019 has been a year of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on 31 October 2019, with or without a deal. However, MPs blocked leaving on that date and the EU agreed an extension to 31 January 2020. In late October, MPs approved an outline of a Brexit deal to enable the UK to leave the EU on 31 January. Now that the Conservative Government has gained a large overall majority in the **general election** on 12 December, this outline deal will be passed by Parliament by that date. However, there will still be much uncertainty as the detail of a trade deal will need to be negotiated by the current end of the transition period in December 2020, which the Prime Minister has pledged he will not extend. This could prove to be an unrealistically short timetable for such major negotiations that leaves open two possibilities; one, the need for an extension of negotiations, probably two years, or, a no deal Brexit in December 2020.

GDP growth has taken a hit from Brexit uncertainty during 2019; quarter three 2019 surprised on the upside by coming in at +0.4% q/q, +1.1% y/y. However, the peak of Brexit uncertainty during the final quarter appears to have suppressed quarterly growth to probably around zero. The economy is likely to tread water in 2020, with tepid growth around about 1% until there is more certainty after the trade deal deadline is passed.

While the Bank of England went through the routine of producing another **quarterly Inflation Report,** (now renamed the Monetary Policy Report), on 7 November, it is very questionable how much all the writing and numbers were worth when faced with the uncertainties of where the UK will be after the general election. The Bank made a change in their Brexit assumptions to now include a deal being eventually passed. Possibly the biggest message that was worth taking note of from the Monetary Policy Report, was an increase in concerns among MPC members around weak global economic growth and the potential for Brexit uncertainties to become entrenched and so delay UK economic recovery. Consequently, the MPC voted 7-2 to maintain Bank Rate at 0.75% but two members were sufficiently concerned to vote for an immediate Bank Rate cut to 0.5%. The MPC warned that if global growth does not pick up or Brexit uncertainties intensify, then a rate cut was now more likely. Conversely, if risks do recede, then a more rapid recovery of growth will require gradual and limited rate rises. The speed of recovery will depend on the extent to which uncertainty dissipates over the final terms for trade between the UK and EU and by how much global growth rates pick up. The Bank revised its inflation forecasts down – to 1.25% in 2019, 1.5% in 2020, and 2.0% in 2021; hence, the MPC views inflation as causing little concern in the near future.

The **MPC meeting of 19 December** repeated the previous month's vote of 7-2 to keep Bank Rate on hold. Their key view was that there was currently 'no evidence about the extent to which policy uncertainties among companies and households had declined' i.e. they were going to sit on their hands and see how the economy goes in the next few months. The two members who voted for a cut were concerned that the labour market was faltering. On the other hand, there was a clear warning in the minutes that the MPC were concerned that "domestic unit labour costs have continued to grow at rates above those consistent with meeting the inflation target in the medium term".

If economic growth were to weaken considerably, the MPC has relatively little room to make a big impact with Bank Rate still only at 0.75%. It would therefore, probably suggest that it would be up to the Chancellor to provide help to support growth by way of a **fiscal boost** by e.g. tax cuts, increases in the annual expenditure budgets of government departments and services and expenditure on infrastructure projects, to boost the economy. The Government has already made moves in this direction and it made significant promises in its election manifesto to increase government spending by up to £20bn p.a., (this would add about 1% to GDP growth rates), by investing primarily in infrastructure. This is likely to be announced in

the next Budget, probably in February 2020. The Chancellor has also amended the fiscal rules in November to allow for an increase in government expenditure.

As for **inflation** itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell again in both October and November to a three-year low of 1.5%. It is likely to remain close to or under 2% over the next two years and so, it does not pose any immediate concern to the MPC at the current time. However, if there was a hard or no deal Brexit, inflation could rise towards 4%, primarily because of imported inflation on the back of a weakening pound.

With regard to the **labour market,** growth in numbers employed has been quite resilient through 2019 until the three months to September where it fell by 58,000. However, there was an encouraging pick up again in the three months to October to growth of 24,000, which showed that the labour market was not about to head into a major downturn. The unemployment rate held steady at a 44-year low of 3.8% on the Independent Labour Organisation measure in October. Wage inflation has been steadily falling from a high point of 3.9% in July to 3.5% in October (3-month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.0%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The other message from the fall in wage growth is that employers are beginning to find it easier to hire suitable staff, indicating that supply pressure in the labour market is easing.

USA. President Trump's massive easing of fiscal policy in 2018 fuelled a temporary boost in consumption in that year which generated an upturn in the rate of growth to a robust 2.9% y/y. **Growth** in 2019 has been falling after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2 and then 2.1% in quarter 3. The economy looks likely to have maintained a growth rate similar to quarter 3 into quarter 4; fears of a recession have largely dissipated. The strong growth in employment numbers during 2018 has weakened during 2019, indicating that the economy had been cooling, while inflationary pressures were also weakening. However, CPI inflation rose from 1.8% to 2.1% in November, a one year high, but this was singularly caused by a rise in gasoline prices.

The Fed finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment' but flagged up that this was not intended to be seen as the start of a series of cuts to ward off a downturn in growth. It also ended its programme of quantitative tightening in August, (reducing its holdings of treasuries etc.). It then cut rates by 0.25% again in September and by another 0.25% in its October meeting to 1.50 – 1.75%.. At its September meeting it also said it was going to **start buying Treasuries again**, although this was not to be seen as a resumption of quantitative easing but rather an exercise to relieve liquidity pressures in the repo market. Despite those protestations, this still means that the Fed is again expanding its balance sheet holdings of government debt. In the first month, it will buy $60bn, whereas it had been reducing its balance sheet by $50bn per month during 2019. As it will be buying only short-term (under 12 months) Treasury bills, it is technically correct that this is not quantitative easing (which is purchase of long term debt). The Fed left rates unchanged in December. However, the accompanying statement was more optimistic about the future course of the economy so this would indicate that further cuts are unlikely.

Investor confidence has been badly rattled by the progressive ramping up of increases in tariffs President Trump has made on Chinese imports and China has responded with increases in tariffs on American imports. This **trade war** is seen as depressing US, Chinese and world growth. In the EU, it is also particularly impacting Germany as exports of goods and services

are equivalent to 46% of total GDP. It will also impact developing countries dependent on exporting commodities to China.
However, in November / December, progress has been made on agreeing a phase one deal between the US and China to roll back some of the tariffs; this gives some hope of resolving this dispute.

EUROZONE. Growth has been slowing from +1.8 % during 2018 to around half of that in 2019. Growth was +0.4% q/q (+1.2% y/y) in quarter 1, +0.2% q/q (+1.2% y/y) in quarter 2 and then +0.2% q/q, +1.1% in quarter 3; there appears to be little upside potential in the near future. German GDP growth has been struggling to stay in positive territory in 2019 and fell by -0.1% in quarter 2; industrial production was down 4% y/y in June with car production down 10% y/y. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars.

The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which then meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by quantitative easing purchases of debt. However, the downturn in EZ growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March meeting it said that it expected to leave interest rates at their present levels “at least through the end of 2019”, but that was of little help to boosting growth in the near term. Consequently, it announced a **third round of TLTROs**; this provides banks with cheap borrowing every three months from September 2019 until March 2021 that means that, although they will have only a two-year maturity, the Bank was making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank’s eligible loans. However, since then, the downturn in EZ and world growth has gathered momentum; at its meeting on 12 September it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a **resumption of quantitative easing purchases of debt for an unlimited period.** At its October meeting it said these purchases would start in November at €20bn per month - a relatively small amount compared to the previous buying programme. It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and, unsurprisingly, the ECB stated that governments would need to help stimulate growth by ‘growth friendly’ fiscal policy.

There were no policy changes in the December meeting, which was chaired for the first time by the new President of the ECB, Christine Lagarde. However, the outlook continued to be down beat about the economy; this makes it likely there will be further monetary policy stimulus to come in 2020. She did also announce a thorough review of how the ECB conducts monetary policy, including the price stability target. This review is likely to take all of 2020.

On the political front, Austria, Spain and Italy have been in the throes of **forming coalition governments** with some unlikely combinations of parties i.e. this raises questions around their likely endurance. The latest results of German state elections has put further pressure on the frail German CDU/SDP coalition government and on the current leadership of the CDU. The results of the Spanish general election in November have not helped the prospects of forming a stable coalition.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and shadow banking systems. In

addition, there still needs to be a greater switch from investment in industrial capacity, property construction and infrastructure to consumer goods production.

JAPAN - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

WORLD GROWTH. Until recent years, world growth has been boosted by increasing **globalisation** i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a **reversal of world globalisation and a decoupling of western countries** from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation. **Central banks are, therefore, likely to come under more pressure to support growth by looser monetary policy measures and this will militate against central banks increasing interest rates**.

The trade war between the US and China is a major concern to **financial markets** due to the synchronised general weakening of growth in the major economies of the world, compounded by fears that there could even be a recession looming up in the US, though this is probably overblown. These concerns resulted in **government bond yields** in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US). There are also concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks and the use of negative central bank rates in some countries. The latest PMI survey statistics of economic health for the US, UK, EU and China have all been predicting a downturn in growth; this confirms investor sentiment that the outlook for growth during the year ahead is weak.

INTEREST RATE FORECASTS

The interest rate forecasts provided by Link Asset Services in paragraph 3.3 are **predicated on an assumption of an agreement being reached on Brexit between the UK and the EU.** On this basis, while GDP growth is likely to be subdued in 2019 and 2020 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement on the detailed terms of a trade deal is likely to lead to a boost to the rate of growth in subsequent years. This could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

- In the event of an **orderly non-agreement exit in December 2020**, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall.
- If there were a **disorderly Brexit**, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. Quantitative easing could also be restarted by the Bank of England. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably even, but dependent on a successful outcome of negotiations on a trade deal.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.
- In the event that a Brexit deal was agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

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

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

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis.** In 2018, Italy was a major concern due to having a populist coalition government which made a lot of anti-austerity and anti-EU noise. However, in September 2019 there was a major change in the coalition governing Italy which has brought to power a much more EU friendly government; this has eased the pressure on Italian bonds. Only time will tell whether this new coalition based on an unlikely alliance of two very different parties will endure.
- Weak capitalisation of some **European banks**, particularly Italian banks.
- **German minority government.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in recent state elections but the SPD has done particularly badly and this has raised a major question mark over continuing to support the CDU. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until 2021.
- **Other minority EU governments.** Austria, Finland, Sweden, Spain, Portugal, Netherlands and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.

- In October 2019, the IMF issued a report on the World Economic Outlook which flagged up a synchronised slowdown in world growth. However, it also flagged up that there was **potential for a rerun of the 2008 financial crisis**, but his time centred on the huge debt binge accumulated by corporations during the decade of low interest rates. This now means that there are corporates who would be unable to cover basic interest costs on **some $19trn of corporate debt in major western economies,** if world growth was to dip further than just a minor cooling. This debt is mainly held by the shadow banking sector i.e. pension funds, insurers, hedge funds, asset managers etc., who, when there is $15trn of corporate and government debt now yielding negative interest rates, have been searching for higher returns in riskier assets. Much of this debt is only marginally above investment grade so any rating downgrade could force some holders into a fire sale, which would then depress prices further and so set off a spiral down. The IMF's answer is to suggest imposing higher capital charges on lending to corporates and for central banks to regulate the investment operations of the shadow banking sector. In October 2019, the deputy Governor of the Bank of England also flagged up the dangers of banks and the shadow banking sector lending to corporates, especially highly leveraged corporates, which had risen back up to near pre-2008 levels.
- **Geopolitical risks,** for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

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

- **Brexit** – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

UK inflation, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

6.3 TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT OPTION 1

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.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria. A maximum of 100% 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 above categories.

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

	Minimum credit criteria / colour band	**** Max % of total investments/ £ limit per institution**	**Max. maturity period**
DMADF – UK Government	N/A	**100%**	**6 months**
UK Government gilts	UK sovereign rating	50%	12 months
UK Government Treasury bills	UK sovereign rating	50%	12 months
Bonds issued by multilateral development banks	AAA (or state your criteria if different)	50%	6 months
Money Market Funds (CNAV, LNAV and VNAV)	AAA	100%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	100%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	100%	Liquid
Local authorities	N/A	100%	12 months
Gloucestershire Airport	N/A	£7.25m	
Marketing Gloucester	N/A	£0.24m	
Rokeby Merchant	N/A	£0.6m	
Ladybellegate Estates	N/A	£1.8m	

Gloucestershire Wildlife Trust	N/A	£0.55m	
Cheltenham YMCA	N/A	£1.5m	31 years
Term deposits with banks and building societies	Blue Orange Red Green No Colour	£10m £10m £10m £10m £0	12 months 12 months 6 months 100 days Not for use
CDs or corporate bonds with banks and building societies	Blue Orange Red Green No Colour	£1m £1m £1m £1m £0	12 months 12 months 6 months 100 days Not for use
Gilt funds	UK sovereign rating	Nil	
CCLA Property/DIF Funds		£10m	10 years

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this 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.

6.4 APPROVED COUNTRIES FOR INVESTMENTS

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- Hong Kong
- France
- U.K.

AA-

- Belgium
- Qatar

6.5 TREASURY MANAGEMENT SCHEME OF DELEGATION

(i) Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

(ii) Audit and Governance Committee

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Body/person(s) with responsibility for scrutiny

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

6.6 THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;

- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following
    - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*
    - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*
    - *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;*
    - *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*
    - Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

Gloucester City Council

Meeting:	**Audit & Governance Committee**	**Date:**	**9th March 2020**
	Cabinet		**11th March 2020**
	Council		**26th March 2020**
Subject:	**Capital Strategy 2020/21**		
Report Of:	**Cabinet Member for Performance and Resources**		
Wards Affected:	**All**		
Key Decision:	**No**	**Budget/Policy Framework:**	**Yes**
Contact Officer:	**Jon Topping, Head of Policy and Resources**		
	Email: jon.topping@gloucester.gov.uk	**Tel: 396242**	
Appendices:	**1. Capital Strategy 2020/21**		

1.0 Purpose of Report

1.1 To formally recommend that Council approves the attached Capital Strategy.

2.0 Recommendations

2.1 Audit and Governance Committee is asked to **RECOMMEND** that the Capital Strategy be approved.

2.2 Council is asked to **RESOLVE** that:

(1) The Capital Strategy at Appendix 1 be approved;

3.0 Background and Key Issues

3.1 The Capital Strategy attached at appendix 1 to this report was a new requirement for Council's to produce from April 2018 following the publication of the revised Prudential Code for Capital Finance in Local Authorities 2017.

3.2 The Capital Strategy focuses on core principles that underpin the Council's five year capital programme, providing a position statement of progress (capital expenditure) and the resources available (funding). The Strategy projects the Capital programme while setting out how the programme will be achieved focusing on key issues and risks that will impact on the delivery of the Capital strategy and the governance framework required to ensure the Strategy is delivered.

3.3 The Strategy maintains a strong and current link to the Council's priorities and to its key strategy documents, notably the Treasury Management Strategy, Asset Management Strategy, Property Investment Strategy, Medium Term Financial Plan and the Corporate Plan.

4.0 Alternative Options Considered

4.1 The Capital Strategy is a requirement of the Prudential Code for Capital Finance 2017, no alternatives considered as this is a code requirement.

5.0 Reasons for Recommendations

5.1 To ensure the Council adopts the Prudential Code for Capital Finance 2017.

6.0 Future Work and Conclusions

6.1 The Capital Strategy will be monitored and reviewed annually.

7.0 Financial Implications

7.1 There are no direct financial implications arising from this report. The Capital Strategy provides a position statement with regards to capital expenditure and the resources available in terms of funding.

8.0 Social Value Considerations

8.1 This report notes the Capital Strategy of the Council. This is a requirement of the CIPFA Prudential Code for Capital Finance 2017 - There are no anticipated Social Value implications from this report.

9.0 Legal Implications

9.1 The Council is required to have a Capital Strategy to meet the requirements of the CIPFA Prudential Code for Capital Finance 2017.

10.0 Risk & Opportunity Management Implications

10.1 The Council must have reviewed its Capital Strategy by 31st March 2020.

11.0 People Impact Assessment (PIA):

11.1 A PIA screening assessment has been undertaken and the impact is neutral. A full PIA is not required.

12.0 Other Corporate Implications

Community Safety

12.1 None

Sustainability

12.2 None

Staffing & Trade Union

12.3 None

Background Documents: Local Government Act 2003
CIPFA Prudential Code

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Introduction

This capital strategy sets out how Gloucester City Council intend to spend capital to provide services and meet the strategic aims in the Council plan. This strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members', residents and other stakeholders understanding of these areas.

Background

The Capital Strategy demonstrates that the authority takes capital investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. The Capital Strategy also sets out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes. Decisions around capital expenditure, investment and borrowing should align with the processes established for the setting and revising of the budget for the local authority.

The Capital Strategy should also be tailored to the authority's individual circumstances and should include capital expenditure, investments and liabilities and treasury management. For Gloucester, the Treasury Management Strategy drawn up in line with the Treasury Management Code will continue to be published as a separate document and this will remain separate to differentiate between the demand and assessment of capital expenditure and the management of the investment and borrowing portfolio.

Policy Context

The Council plan 2017 – 20 defines the Council's vision:

"A city that works for everyone"

The priorities to support this vision are:

- Working to create a vibrant and prosperous city
- Working to maintain a safe and attractive city
- Working to build strong and resilient communities
- Working to provide great services that ensure value for money

The vision and priorities are underpinned by our core values.

For full details of the Council Plan see: **Council Plan**

The Capital Strategy is an important policy document in delivering the Council's Vision in terms of maintaining and extending the Council's asset base but needs to

take a longer-term view to reflect the life cycle of capital assets. The life cycle of capital assets, often known as non-current assets, will range between 5-60 years or even longer if land is acquired. Decisions made now will affect residents, business and other stakeholders for many years to come.

Capital Expenditure and Financing

Capital expenditure is where the Council spends money on assets, such as property or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £6,000 are not capitalised and are charged to revenue in year.

- For details of the Council's policy on capitalisation, see: Statement of Accounts 2018/19 page 21, Accounting Policies point 19 - Statement of Accounts

In 2020/21, the Council is planning capital expenditure of £19.519m as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget
General Fund services	7.955	75.768	19.519	0.804	0.769
TOTAL	7.955	75.768	19.519	0.804	0.769

The capital programme includes a variety of projects from large regeneration to smaller individual projects, the main capital projects are detailed below:

Kings Walk – The initial project included a capital investment of £5m from the City Councils project partners Reef. This initial investment was for improvements and conversion of the former BHS store, Kings Walk car park and improvements to the Mall. The works to Kings Walk car park were completed in 2019-20 and the conversion of the former BHS store has already commenced. The next phase will look to make further enhancements to the Mall in line with the Councils investment in Kings Square and will explore further opportunities for the development of the centre. The Council anticipates initially borrowing to facilitate this project, with borrowing costs being met by the forecast income.

There is also the opportunity for further unit purchases by the Council. This will be done on a case by case basis, as the Council continues to redevelop the area. Borrowing costs will be met from income generated through the project.

The redevelopment of Kings Square has commenced in the current year and this significant project in the Councils regeneration plans is expected to be completed before the end of 2020. Planning and enabling works have already been committed at £1m, which will be funded from a combination of capital receipts and the Regeneration fund. Future costs will be funded from borrowing, initially borrowing costs will be met from the VAT shelter income, before been offset against income generated from the Kings Quarter development.

The project to regenerate Kings Quarter is moving forward with a full report expected to be taken in early 2020. This will see significant investment by the Council in both the physical, economic and cultural redevelopment of this part of the city. The required investment will be significant and will be a long-term investment of up to 50 years.

Railway Station – Work will redevelop the station and link it to the Bus Station and City Centre, this project will be funded via the LEP.

The Fleece – The Council continues to explore opportunities for the redevelopment of this iconic part of the City. The Council will support the redevelopment, but this project is to be developer led.

Housing Projects – The recent purchase of St Oswald's and approval of revised Housing Strategy will bring a number of housing projects forward. As these projects are developed any required investment for delivery will be analysed to seek affordable solutions.

Governance: The Capital Projects Steering group and/or the Property Investment Board review projects for inclusion within the Council's capital programme. Projects are collated by finance who calculate the financing cost (which can be nil if the project is fully externally financed). The groups appraise all bids based on a comparison of service priorities against financing costs and makes recommendations for the capital programme. The final capital programme is then presented to Cabinet in January and to Council in February each year.

- For full details of the Council's capital programme see: Money Plan

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget
External sources	0.491	3.795	0.969	0.574	0.494
Own resources	4.286	0.955	4.550	0.230	0.275
Debt	3.178	71.018	14.000	0.000	00.000
TOTAL	**7.955**	**75.768**	**19.519**	**0.804**	**0.769**

Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are as follows:

Table 3: Replacement of debt finance in £ millions

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget
Own resources	0.529	2.077	2.499	2.387	2.337

- The Council's full minimum revenue provision statement is available here: Treasury Management Strategy - MRP

The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £11.864m during 20/21. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	31.3.2019 actual	31.3.2020 forecast	31.3.2021 budget	31.3.2022 budget	31.3.2023 budget
General Fund services	45.032	114.343	126.207	124.176	122.186
TOTAL CFR	**45.032**	**114.343**	**126.207**	**124.176**	**122.186**

Asset management: To ensure that capital assets continue to be of long-term use, the Council has an asset management strategy in place. Gloucester City Council has a diverse estate from ancient monuments to commercial property. The asset management strategy details our approach to managing our diverse assets including our acquisitions and disposals, planned maintenance, governance and performance.

- The Council's asset management strategy can be read here: Asset Management Strategy

Asset disposals: When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Council is currently also permitted to spend capital receipts on service transformation projects until 2023/24. Repayments of capital grants, loans and investments also generate capital receipts. The Council plans to receive £2.5m of capital receipts in the coming financial year as follows:

Table 5: Capital receipts in £ millions

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget
Asset sales	0.479	0.500	2.500	1.000	0.500
Loans repaid	0.000	0.000	0.000	0.000	0.000
TOTAL	**0.479**	**0.500**	**2.500**	**0.000**	**0.000**

- The Council's Flexible Use of Capital Receipts Policy is available here: Flexible Use of Capital Receipts Policy

Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

Borrowing strategy: The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans (currently available at around 0.75%) and long-term fixed rate loans where the future cost is known but higher (currently 2.3 to 3.1%).

Projected levels of the Council's total outstanding debt (which comprises borrowing, PFI liabilities, leases are shown below, compared with the capital financing requirement (see above).

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

	31.3.2019 actual	31.3.2020 forecast	31.3.2021 budget	31.3.2022 budget	31.3.2023 budget
Debt (incl. PFI & leases)	40.841	109.782	121.283	118.896	116.559
Capital Financing Requirement	45.032	114.343	126.207	124.176	122.186

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Council expects to comply with this in the medium term.

Affordable borrowing limit: The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 7: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2019/20 limit	2020/21 limit	2021/22 limit	2022/23 limit
Authorised limit – borrowing	£110	£115	£115	£115
Authorised limit – PFI and leases	£35	£35	£35	£35
Authorised limit – total external debt	£145	£150	£150	£150
Operational boundary – borrowing	£105	£110	£110	£110
Operational boundary – PFI and leases	£25	£25	£25	£25
Operational boundary – total external debt	£130	£135	£135	£135

- Further details on borrowing are in pages 11 to 15 of the treasury management strategy Treasury Management Strategy

Investment strategy: Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

The Council's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

- Further details on treasury investments are in pages 16 to 21 of the treasury management strategy - Treasury Management Strategy

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Head of Policy and Resources and staff, who must act in line with the treasury management strategy approved by Council. Half yearly reports on treasury management activity are presented to Audit and Governance Committee which is responsible for scrutinising treasury management decisions.

Investments for Service Purposes

The Council makes investments to assist local public services, including making loans to local service providers, businesses to promote economic growth, the Council's subsidiaries that provide services. In light of the public service objective, the Council is willing to take more risk than with treasury investments, however it still plans for such investments to generate a profit after all costs.

Governance: Decisions on service investments are made by the relevant service manager in consultation with the Head of policy and Resources and must meet the criteria and limits laid down in the investment strategy. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme.

Property Investment

With central government financial support for local public services declining, the Council produced a Property Investment Strategy for investments in commercial property that are financially robust, demonstrate value for money and are aligned to the Councils strategic priorities.

The Council accepts higher risk on commercial investment than with treasury investments. The principal risk exposures include a fall in capital value on purchases, or vacancies within purchased property. These risks are managed in accordance with our Property Investment Strategy. In order that commercial investments remain proportionate to the size of the authority, these are subject to an overall maximum investment limit of £80m.

Governance: Decisions on commercial investments are made by the Property Investment Board in line with the criteria and limits approved by council in the Property Investment Strategy which include delegation for the Head of Policy and Resources to approve purchases up to £15m with purchases greater than £15m requiring Cabinet approval.

- Further details on other commercial activities are in the Property Investment Strategy: Property Investment Strategy

Liabilities

In addition to debt of £40.841m detailed above, the Council is committed to making future payments to cover its pension fund deficit (valued at £68.963m). It has also set aside £1.9m to cover risks of provisions, this mainly relates to NNDR appeals, were the Council has estimated the costs arising from appeals by ratepayers. The Council did not have any contingent liabilities in 2018/19.

Governance: Decisions on incurring new discretional liabilities are taken by service managers in consultation with head of Policy and Resources. The risk of liabilities crystallising and requiring payment is monitored by finance.

- Further details on provisions (page 50), liabilities and guarantees are on page 65 of the 2018/19 statement of accounts - Statement of Accounts

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Table 9: Prudential Indicator: Proportion of financing costs to net revenue stream

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget
Financing costs (£m)	2.228	2.146	5.285	5.168	5.133
Proportion of net revenue stream	13.59%	12.08%	24.50%	24.25%	24.83%

- Further details on the revenue implications of capital expenditure are noted within the 2020/21revenue budget - Money Plan

Sustainability: Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Head of Policy and Resources is satisfied that the proposed capital programme is prudent, affordable and sustainable.

Knowledge and Skills

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Head of Policy and Resources is a qualified accountant with 25 years' experience, the Accountancy Managers are both qualified accountants with 25 and 14 years' experience. The Council pays for junior staff to study towards relevant professional qualifications including CIPFA, ACT (treasury) and CIMA.

Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Link Asset Services as treasury management advisers, the Council employs property consultants on a case by case basis. This approach is more cost effective than employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

Gloucester City Council

Meeting:	**Audit and Governance Committee Date: 9th March 2020**
Subject:	**Annual Risk Management Report 2019/20**
Report Of:	**Head of Audit Risk Assurance (Chief Internal Auditor)**
Wards Affected:	**Not applicable**
Key Decision:	**No Budget/Policy Framework: No**
Contact Officer:	**Theresa Mortimer - Head of Audit Risk Assurance (ARA)**
	Email: Theresa.Mortimer@gloucestershire.gov.uk Tel: 01452 396430 or 01452 328883
Appendices:	**Appendix A - Annual Report on Risk Management 2019/20 (including the Risk Management Action Plan)**

FOR GENERAL RELEASE

1.0 Purpose of Report

1.1 The Audit and Governance Committee's role (as per the Constitution) includes the function to 'monitor the adequacy and effectiveness of the Council's governance arrangements' including 'monitoring the arrangements for the identification, monitoring and control of strategic and operational risk within the Council'.

1.2 This report is designed to assist the Committee in the exercise of this function – to provide Members with an update on the Council's risk management activities from 2019/20 and also confirm future planned actions.

2.0 Recommendations

2.1 Audit and Governance Committee is asked to **RESOLVE** that Members:

(1) Note and endorse:

- The risk management arrangements in place for the past year (2019/20); and
- The planned risk management arrangements for 2020/21.

(2) Agree that on the basis of the information set out in this report, it can be concluded that arrangements for managing risk within the Council are sound.

3.0 Background and Key Issues

3.1 'Risk management is the culture, process and structures that are directed towards effective management of potential opportunities and threats to the Council achieving its priorities and objectives' – ALARM, the public risk management association.

3.2 The Accounts and Audit Regulations 2015 (part 2 paragraph 3) state 'a relevant local authority must ensure that it has a sound system of internal control which…includes effective arrangements for the management of risk'.

3.3 Risk management is a key part of the Council's corporate governance framework and internal control environment. It is one of the seven core principles within the Council's Code of Corporate Governance – 'managing risks and performance through robust internal control and strong public financial management'.

3.4 The Council recognises the importance of effective risk management, that it is essential for good governance and sound internal control within a public body, and its positive contribution to the delivery of successful strategic and service level outcomes.

3.5 The previous Annual Risk Management Report was presented to Audit and Governance Committee in March 2019.

3.6 The Annual Risk Management Report 2019/20 is attached at **Appendix A**. It supports the risk management work, advice and support, provided by ARA, during the year.

4.0 Social Value Considerations

4.1 There are no Social Value implications as a result of the recommendations made in this report.

5.0 Environmental Implications

5.1 There are no Environmental implications as a result of the recommendations made in this report.

6.0 Alternative Options Considered

6.1 No other options have been considered.

7.0 Reasons for Recommendations

7.1 An annual Risk Management report and a risk management plan for the new financial year are required to support the Audit and Governance Committee function to 'monitor the adequacy and effectiveness of the Council's governance arrangements'.

8.0 Future Work and Conclusions

8.1 A Risk Management Action Plan has been developed for 2020/21 with the goal to further embed risk management within the Council. The Action Plan is included, as an appendix, to the Annual Risk Management Report 2019/20. The full report has been provided to Senior Management Team (SMT), prior to presentation to Audit and Governance Committee alongside the strategic risk register on 9th March 2020.

9.0 Financial Implications

9.1 There are no direct financial implications as a result of this report.

(Financial Services have been consulted in the preparation this report).

10.0 Legal Implications

10.1 None specifically arising from the report recommendations.

10.2 It is fundamental that the Council has an embedded risk management framework (including a Risk Management Strategy) which considers the identification, recording and management of risks to the Council in the delivery of its priorities and objectives.

10.3 The existence and application of an effective Risk Management Strategy (including Member review of the strategic risk register and awareness of strategic risks) assists prudent decision making. Failure to identify and manage strategic risks could lead to inappropriate decision making, unnecessary liability and costly legal challenge.

(One Legal have been consulted in the preparation this report).

11.0 Risk and Opportunity Management Implications

11.1 Failure to deliver on effective risk management, particularly during periods of significant change, may have a negative effect on the achievement of the potential opportunities and adverse effects that challenge the assets, reputation and objectives of the council, strategic decision making and the wellbeing of our stakeholders.

12.0 People Impact Assessment (PIA) and Safeguarding:

12.1 A requirement of the Accounts and Audit Regulations 2015 is for the Council to *'undertake an effective Internal Audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'*. The Internal Audit Service is delivered by Audit Risk Assurance which is an internal audit and risk management shared service between Gloucester City Council, Stroud District Council and Gloucestershire County Council. Equality in service delivery is demonstrated by the team being subject to, and complying with, the Council's equality policies.

12.2 The PIA Screening Stage was completed and did not identify any potential or actual negative impact, therefore a full PIA was not required.

13.0 Community Safety Implications

13.1 There are no Community Safety implications as a result of the recommendation made in this report.

14.0 Staffing & Trade Union Implications

14.1 There are no Staffing & Trade Union implications as a result of the recommendation made in this report.

Background Documents: Accounts and Audit Regulations 2015

CIPFA/SOLACE Delivering Good Governance in Local Government: Framework 2016 Edition
Council's Constitution
Public Sector Internal Audit Standards 2017

Annual report on Risk Management 2019/2020

ARA Audit Risk Assurance

Gloucester City Council
Transforming Your City

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Executive Summary

Background

It has always been important for organisations to identify and manage their risks. This view has been reinforced by public sector legislation i.e. Accounts and Audit Regulations 2015 and National Standards i.e. ISO31000:2018 Risk Management Principles and Guidance, which explicitly references to authorities' risk management arrangements.

Risk management is the systematic identification, analysis and economic control of opportunities and risks that challenge the assets, reputation and objectives of an organisation.

It enables the council to effectively manage strategic decision making, service planning and delivery to safeguard the well-being of its stakeholders and increases the likelihood of achieving its outcomes.

Effective risk management is an essential element of good management and a sound internal control system, risk management being a key contributor to good governance and the Annual Governance Statement (AGS).

Risk management principles for the council are contained within the Constitution and are further defined within the council's Risk Management Policy Statement and Strategy 2020-2023. This includes roles, responsibilities and accountabilities for risk management across the council, which include (but are not exclusive to):

- Cabinet
- Audit and Governance Committee
- Corporate Directors
- Heads of Service (including the S151 Officer)
- Service Managers

As part of the defined risk management approach, Audit Risk Assurance (ARA) supports the implementation of effective risk management arrangements across the authority.

Key Outcomes in 2019/2020

The below diagram confirms the key outcomes against the 2019/2020 Risk Management Action Plan. See **Appendix 3** for the full Plan detail.

Key Outcomes in 2019/2020

RISK MANAGEMENT TRAINING/BRIEFINGS

Audit Risk Assurance (ARA) has continued to provide risk management training sessions, workshops and presentations. In particular:

- Risk Management forms part of the corporate e-Induction for all new staff and is included within the HR and employee handbook;
- Risk awareness training, in conjunction with the Council's insurer (Zurich Municipal) for Members, SMT and GMT;
- Annual Governance Statement briefings to Members of the Audit and Governance Committee and Senior Management Team incorporating governance/risk assurance mapping processes.

PROJECT SUPPORT 2019/2020

ARA has continued to provide support to the Council's major projects, e.g. Gloucester Rail Station and Kings Square. Specific support is provided to projects that are strategic, high risk and/or complex.

ISO31000 (2018) ASSESSMENT

During 2019/2020, the risk management arrangements of the council were assessed against ISO31000 (2018 revised version).

The assessment established that the Council's risk management arrangements are appropriate to the expectations of the standard.

SERVICE PLANS & RISK REGISTERS

Specific advice, guidance and support provided for all service managers with completion of service plans and service risk registers.

ALARM

ARA has continued to contribute to and attend the ALARM Annual Conference and South West ALARM regional sessions. The membership includes district councils.

RISK MATURITY MODEL

A Risk Maturity Model has been introduced in 2019/2020. Within the Annual Governance Statement, service managers and members of the Senior Management Team (SMT) have been requested to provide an assessment on the risk maturity level (based on the model) for their service area.

REVIEW AND REFRESH OF THE RISK MANAGEMENT POLICY STATEMENT & STRATEGY

To ensure that the Policy Statement & Strategy remains fit for purpose, it is reviewed every three years. A revised version for 2020/2023 was agreed by SMT in December 2019, recommended for approval by the Audit & Governance Committee in January 2020 and approved by Cabinet in February 2020. This was communicated to all staff and Members via NetConsent in March 2020.

ARA SHARED SERVICE

Since June 2015 Gloucester City Council, Stroud District Council and Gloucestershire County Council (as host authority) entered into a shared service collaboration agreement to provide an Internal Audit, Counter Fraud and Risk Management Service (i.e. Audit Risk Assurance (ARA)).

ARA also continues to provide an Internal Audit and Counter Fraud service to clients under contractual arrangements.

ARA supports partners in embedding the principles of good risk management into their day to day business practices and decision making processes.

Frameworks

Details of the risk management framework are included in the Risk Management Policy Statement and Strategy 2020/2023 (available on the Council intranet, GlosNet).

In summary, key responsibilities are as follows:

- **Lead Committee for Risk Management** – The Audit and Governance Committee.
- **Senior Management responsibilities** – During 2019/2020 the Senior Management Team (SMT) continued to take ownership of Strategic Risk Management with each of the strategic risks being owned by a SMT member. Half-yearly strategic risk management reports are provided to the Audit and Governance Committee to enable them to gain assurance that the Council's strategic risks are being effectively managed. The Head of Policy and Resources was the SMT lead overseeing the risk management activities during 2019/2020.
- **Lead Member responsible for Risk Management** – Chair of the Audit and Governance Committee (this will be reviewed and may change after the May 2020 elections).
- **Operational Risk Management** – The strategy requires that all staff have a role to play in managing risk, with risk management principles embedded into all key business processes, including financial / performance / programme / contract and project management arrangements. Championship of risk is undertaken by SMT, working alongside ARA and helping to embed risk management into the council's culture.
- In addition, ARA works closely with other key specialist areas of risk such as Health and Safety, Human Resources etc.

Risk Management and links to Good Governance and the Annual Governance Statement

The Council acknowledges its responsibility for ensuring that there is effective governance within the Council and as such has developed a Code of Corporate Governance that defines the principles and practices that underpin the governance arrangements operating within the Council.

The Code is consistent with the seven core principles of the Chartered Institute of Public Finance and Accountancy (CIPFA)/Society of Local Authority Chief Executives (SOLACE) guidance "Delivering Good Governance in Local Government Framework – 2016 Edition". One of the seven core principles of good governance states:

"Managing risks and performance through robust internal control and strong public financial management."

In order to gauge the effectiveness of the risk management arrangements operating within the Council, an assurance framework is in operation, which underpins the statements made within the Annual Governance Statement. The process requires all Corporate Directors and Heads of Service to provide high level examples of compliance against these seven principles including the core principle above, via an assurance statement, to demonstrate that risk management is being effectively applied within their service areas. The Heads of Service Composite Assurance Statements are also reviewed, challenged and countersigned by the relevant Corporate Director and Managing Director.

In addition, the Three Lines of Defence assurance model was introduced during 2016/2017 and was revised in 2019/2020. The model helps Members and senior management to understand where risk assurances are being obtained from, the level of reliance they place on that assurance and identify potential gaps in assurance, enabling the application of relevant risk mitigation measures and/or controls accordingly.

What is the Three Lines of Defence Assurance Model?

Assurance can come from many sources within the council. The Three Lines of Defence is a concept for helping to identify and understand the different sources of assurance. Defining these sources into three categories as below, helps the council understand how each contributes to the overall level of assurance and how best they can be integrated and supported:

The 'Three Lines of Defence' assurance model distinguishes among three groups (or lines) involved in effective risk management:

- The first line Functions that own and manage risks.
- The second line Functions that oversee risks and ensures compliance.
- The third line Functions that provide independent assurance.

Please see **Appendix 1** below which summarises the risk assurance framework, which is based on the revised Three Lines of Defence model.

Strategic Risk Register

The Council's Risk Management Policy Statement and Strategy requires compilation and formal review of a strategic risk register to identify and assess risks associated with the achievement of the Council's priorities and objectives within the Council Plan. This includes both strategic risks and emerging strategic risks.

For 2019/2020, the strategic risk register has been formally reviewed by SMT with risk owners at SMT level. Versions of the strategic risk register have been tracked to ensure an audit trail of changes and risk direction of travel.

During 2019/2020, two strategic risk areas were highlighted by the Senior Risk Management Advisor (SRMA) for SMT consideration:

- The impact to the Council's business with climate change; and
- The impact, on the Council, of the UK's exit from the European Union (EU), including future funding.

SMT decision was that both were emerging risk areas, to be continually monitored within year. Based on this position, the risks were not included on the strategic risk register in 2019/2020.

Throughout 2019/2020, at each quarter's reporting of the strategic risk register to SMT, risks which have a current risk score of High (Light Red) and Very High (Dark Red) have been highlighted by the SRMA for consideration, and reduced where appropriate or earmarked for further monitoring and review.

At the first quarter reporting of the strategic risk register to SMT, a strategic risk benchmarking exercise was undertaken against six neighbouring and similar local authorities and presented to SMT by the SRMA.

The main aim of this analysis of the categories or types of risk recorded within the strategic risk registers was to evaluate whether the Council had considered and captured all key types of risks associated with delivering the council's objectives and in line with similar local authorities.

From scrutiny of the information and discussion by the SMT, it was concluded that the strategic risks identified and assessed by Gloucester City Council were in line with expectation of the Council's areas of business and other similar authorities.

A summary of the Council's end-of-year 2019/2020 strategic risk register (dated 25th February 2020) was presented to SMT at their meeting on 25th February 2020, to be reported, as a separate agenda item, to the Audit and Governance Committee on 9th March 2020.

Risk Management links to Internal Audit

Whilst the responsibility for identifying and managing risks belongs to management, one of the key roles of Internal Audit is to provide independent assurance that those risks have been properly managed. In order to achieve this, Internal Audit within Gloucester City Council positions its work in the context of the Council's own risk management framework. This approach is known as Risk Based Internal Auditing (RBIA). Further detail of how these two service areas have further enhanced these links to enable more effective contributions to the corporate governance framework can be found within the paragraphs below.

Opinion on Risk

The Public Sector Internal Audit Standards (PSIAS) 2017 requires Internal Audit to provide an independent opinion on the adequacy and effectiveness of the risk management processes which management have put in place within the area under review, and that a sound framework of controls is in place to sufficiently mitigate those risks.

These opinions feed into the Chief Internal Auditor's annual opinion on the overall adequacy and effectiveness of the council's control environment comprising risk management, control and governance, which supports the Annual Governance Statement. Therefore, on each internal audit report, an opinion is provided as to the adequacy of the controls operating within the area under review (which supports the requirements of the Accounts and Audit Regulations 2015).

However, in order to further embed risk management and identify and implement innovative practice, the risk management team within ARA continues to work alongside the Chief Internal Auditor where it was agreed that each internal audit report would, in addition to providing an opinion on control, also provide an opinion as to the effectiveness of the risk management arrangements operating within the area under review.

Therefore, a statement continues to be provided on the levels of assurance (Substantial, Satisfactory, Limited) within these two areas.

Limited Assurance Risk Opinions

Where limited assurance risk opinions are given on audits deemed to be of strategic importance, these are reported to the Audit and Governance Committee. The monitoring of the implementation of the recommendations is owned by the relevant manager. These opinions also help to inform the work priorities of ARA.

The March 2020 Internal Audit Activity Progress Report to Audit and Governance Committee confirmed there was one audit where a limited assurance opinion was given on risk for 2019/20 to that point in time, this related to:

- Gloucestershire Building Control Partnership, reported to Audit and Governance Committee, 20th January 2020.

Where a limited assurance opinion is given, the Shared Service Senior Risk Management Advisor is provided with the Internal Audit report(s) to enable the prioritisation of risk management support. This has been actioned for the above internal audit report.

Risk Management and links to Insurance

During 2019/2020 the Council's insurers, Zurich Municipal, have provided risk management awareness sessions jointly with the ARA Senior Risk Management Advisor for SMT, Gloucester Management Team (GMT) and all Members, including a specific session for members of the Audit and Governance Committee.

Future developments in 2020/2021

ARA will continue to input into the review of the strategic risk profile and the maintenance of the Council's Risk Management Policy Statement and Strategy, support SMT with ensuring that the Strategic Risk Register continues to reflect the Council's current risk profile and will implement various strategies designed to deliver a continuation of the outcomes detailed in this, and previous reports. In the context of this, a number of future developments are planned for 2020/2021, the key actions are outlined below:

➢ Risk Management Action Plan

For 2020/2021 ARA has produced and implemented a dynamic Risk Management Action Plan **Appendix 2**, taking the learning from other sources of our risk assurance framework i.e. the Three Lines of Defence model. The plan will ensure resources continue to be targeted at the high risk areas of the Council, drawing on results of the 2019/2020 Risk Maturity Assessment, ISO 31000 Assessment (International Standards in Risk Management), review of the assurance framework and the action plan emerging from the review of the effectiveness of the Audit and Governance Committee.

➢ Risk Management Training

During 2020/2021, the risk management training programme will continue to be assessed to ensure the training programme reflects the requirements of the Council. The review will aim to include risk management training at all levels of the Council.

Risk awareness training will continue to be offered to Members and Officers as required and is included within the Members Induction Programme, following the May 2020 elections.

➢ Online Risk Management Guidance and Support

For 2020/2021, a Risk Management page will be implemented on the Council's intranet, GlosNet. This will include the Risk Management Policy Statement and Strategy 2020-2023, risk management information, contact details for additional help and a comprehensive Toolkit (including a 'Getting Started' guide).

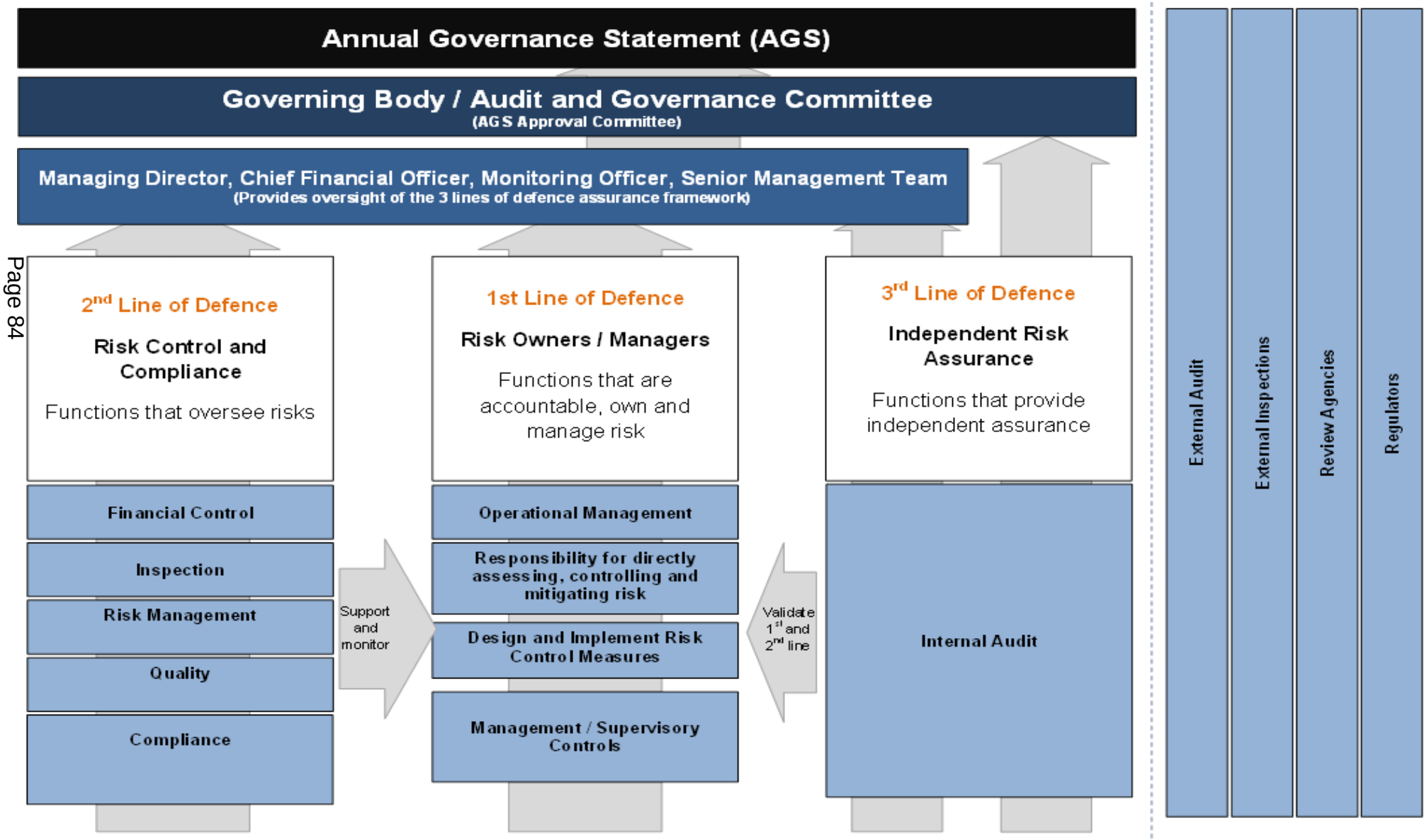
➢ Communications Plan

A Members/Officers communications plan will be developed and implemented to reaffirm the Council's aims and objectives and promote the importance of continuing to embed risk management principles and practices into day to day activities and decision making processes.

Conclusion

On the basis of the information set out in this report, it can be concluded that arrangements for managing risk within the Council are reasonable.

Appendix 1 – Three Lines of Defence Model: Governance, Risk & Control Assurance Framework



The Three Lines of Defence (Assurance Model)

The Three Lines of Defence Assurance Model distinguishes among three groups (or lines) involved in effective risk management:

- Functions that own and manage risks.
- Functions that oversee risks.
- Functions that provide independent assurance.

The first line

As the first line of defence / assurance, operational management has ownership, responsibility and accountability for directly identifying, assessing, controlling and mitigating risks.

The second line

The second line of defence / assurance consists of activities covered by several components of internal governance (compliance, risk management, IT, HR, finance and other control functions). This line monitors and facilitates the implementation of effective risk management practices by operational management, including monitoring the adequacy and effectiveness of internal control, accuracy and completeness of reporting, compliance with laws and regulations, and timely remediation of deficiencies.

Management establishes these functions to ensure the first line of defence / assurance is properly designed, in place, and operating as intended. Each of these functions has some degree of independence from the first line, but they are by nature management functions. As management functions, they may intervene directly in modifying and developing the internal control and risk systems. Therefore, the second line of defence / assurance serves a vital purpose but cannot offer truly independent analyses to governing bodies regarding risk management and internal controls.

The third line

Internal audit form the Council's third line of defence / assurance. An independent internal audit function will, through a risk based approach to its work, provide assurance to the Council's Audit and Governance Committee and senior management. This high level of independence is not available in the second line. Internal Audit assurance will cover how effectively the Council assesses and manages its risks and will include assurance on the effectiveness of the first and second lines.

External auditors, regulators, and other external bodies

In addition to the internal governance arrangements, external auditors, regulators, and other external bodies reside outside the Council's structure, but they can have an important role in the Council's overall governance and control structure. This is particularly the case in regulated industries, such as financial services or insurance.

Regulators sometimes set requirements intended to strengthen the controls in a council and on other occasions perform an independent and objective function to assess the whole or some part of the first, second, or third lines of defence / assurance with regard to those requirements.

When coordinated effectively, external auditors, regulators, and other groups outside the Council can be considered as additional lines of assurance, providing assurance to the Council's shareholders, including the governing body and senior management. Given the specific scope and objectives of their missions, however, the risk information gathered is generally less extensive than the scope addressed by a Council's internal three lines of defence/assurance.

Appendix 2 – Risk Management Action Plan 2020/2021

Area	Action	Deadline/Target
Strategic Risk Register	Facilitation and support of Strategic Risk Register review and update by Senior Management Team (SMT). Formal quarterly updates to occur at SMT. Twice-yearly reporting of the Strategic Risk Register to Audit and Governance Committee.	Ongoing within 2020/2021. July 2020 and March 2021 Committee meetings.
Annual Risk Management Report	Draft the 2020/2021 Annual report to Audit and Governance Committee.	March 2021 Committee.
Risk management guidance and support available to staff and Members	Launch of Risk Management page and the Risk Management Toolkit on GlosNet. Maintenance of the Risk Management page on the council's intranet, which includes (but not be exclusive to) the Risk Management Policy Statement and Strategy 2020-2023 and Risk Management Toolkit.	April 2020. Ongoing within 2020/2021.
Risk management support on Council's significant projects	Offer and provision of risk management advice, support and guidance e.g. Together Gloucester, Gloucester Transport Hub, Climate Change Forum, etc.	Ongoing within 2020/2021.
Risk management training and awareness sessions programme for new Members	To deliver training for newly-elected Members (as at May 2020) in line with Members Induction Programme timeline.	July 2020.
Service Risk Registers	Continued provision of guidance and support to service leads to ensure service risk registers are documented for all Council service areas and are updated accordingly. Working also with the Policy and Governance Team.	Ongoing within 2020/2021.

Area	Action	Deadline/Target
Service Plans	Continued provision of guidance and support to service leads to ensure service plans are documented for all Council service areas and are updated accordingly. Working also with the Policy and Governance Team.	Ongoing within 2020/2021.
Risk Management responsibilities – the 2nd Line of Defence	ARA risk management work will be based on the 3 Lines of Defence risk assurance model, which includes the key objectives (detailed below) on what risk management roles and responsibilities are: • Supporting management policies, defining roles and responsibilities, and setting goals for implementation. • Providing risk management frameworks. • Identifying known and emerging issues. • Identifying shifts in the organisation's implicit risk appetite. • Assisting management in developing processes and controls to manage risks and issues. • Providing guidance and training on risk management processes. • Facilitating and monitoring implementation of effective risk management practices by operational management. • Alerting operational management to emerging issues and changing regulatory and risk scenarios. • Monitoring the adequacy and effectiveness of internal control, accuracy and completeness of reporting, compliance with laws and regulations, and timely remediation of deficiencies. Tasks and targets will be allocated beneath each objective, thus ensuring we are operating in line with this model.	Ongoing within 2020/2021.

Appendix 3 – Risk Management Action Plan 2019/2020

Area	Action	Position as at March 2020
Strategic Risk Register	Facilitation and support of Strategic Risk Register review and update by Senior Management Team (SMT). Formal quarterly updates to occur at SMT. Bi annual reporting of the Strategic Risk Register to Audit and Governance Committee.	Delivered. Presented at July 2019 and March 2020 Committee meetings.
Annual Risk Management Report	Draft the Annual report to Audit and Governance Committee.	Delivered. March 2020 Committee.
Risk Management Self Assessments	Completion of risk management self assessments against the latest regulatory requirements, best practice guidance, principles and standards. Outcomes/actions to be fed into the updated Risk Management Policy Statement and Strategy and Risk Management Toolkit.	Delivered. Outcomes reported within Committee reporting.
Risk Management Policy Statement and Strategy	Review and update of the document, considering regulatory requirements, best practice principles, guidance and standards. Final version to be presented to Audit and Governance Committee for approval.	Delivered. Presented to January 2020 Committee. Presented to February 2020 Cabinet.
Risk management guidance and support available to staff and Members	Creation of a Risk Management page on the Council's intranet, to include (but not be exclusive to) the up to date Risk Management Policy Statement and Strategy and Risk Management Toolkit.	In progress, target date April 2020. Included in the 2020/2021 Plan.
Risk management support on Council's significant projects	Offer and provision of risk management advice, support and guidance e.g. Together Gloucester, Gloucester Transport Hub, Climate Change Forum, etc.	Delivered and continuing into 2020/2021.
Risk management training and awareness sessions programme	Linking with the Council's insurers, Zurich Municipal, to deliver training for: Members; SMT; Gloucester Management Team and Service Managers.	Completed within 2019/2020.

Area	Action	Position as at March 2020
Service Risk Registers	Provision of guidance and support to service leads to ensure service risk registers are documented for all Council service areas and are updated accordingly. Exercise to be undertaken to confirm that all services have documented up to date service risk registers.	Completed within 2019/2020. Also included in 2020/21 Plan. Completed February 2020.
Risk Maturity Model	To ascertain the level of risk maturity within the Council to include a risk maturity self assessment within the Annual Governance Statement assurance statement process. This will enable more focused risk management support to service areas as required.	Included within the 2019/2020 assurance statements.

Area	Action	Position as at March 2020
Risk Management responsibilities – the 2nd Line of Defence	ARA risk management work will be based on the 3 Lines of Defence risk assurance model, which includes the key objectives (detailed below) on what risk management roles and responsibilities are: • Supporting management policies, defining roles and responsibilities, and setting goals for implementation. • Providing risk management frameworks. • Identifying known and emerging issues. • Identifying shifts in the organisation's implicit risk appetite. • Assisting management in developing processes and controls to manage risks and issues. • Providing guidance and training on risk management processes. • Facilitating and monitoring implementation of effective risk management practices by operational management. • Alerting operational management to emerging issues and changing regulatory and risk scenarios. • Monitoring the adequacy and effectiveness of internal control, accuracy and completeness of reporting, compliance with laws and regulations, and timely remediation of deficiencies. Tasks and targets will be allocated beneath each objective, thus ensuring we are operating in line with this model.	Ongoing within 2019/20. Also included in 2020/21 Plan.

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Gloucester City Council

Meeting:	**Audit and Governance Committee**	**Date:**	**9th March 2020**
Subject:	**Internal Audit Activity Progress Report 2019/20**		
Report Of:	**Head of Audit Risk Assurance (Chief Internal Auditor)**		
Wards Affected:	**Not applicable**		
Key Decision:	**No**	**Budget/Policy Framework:**	**No**
Contact Officer:	**Theresa Mortimer - Head of Audit Risk Assurance**		
	Email: Theresa.Mortimer@gloucester.gov.uk	**Tel: 39-6430**	
Appendices:	**A: Internal Audit Activity Progress Report 2019/20**		

FOR GENERAL RELEASE

1.0 Purpose of Report

1.1 To inform Members of the Internal Audit activity progress in relation to the approved Internal Audit Plan 2019/20.

2.0 Recommendations

2.1 Audit and Governance Committee is asked to **RESOLVE** to:

(1) Accept the progress against the Internal Audit Plan 2019/20;

(2) Accept the assurance opinions provided in relation to the effectiveness of the Council's control environment comprising risk management, control and governance arrangements as a result of the Internal Audit activity completed to date; and

(3) It is recommended that the Committee requests senior management attendance at the next meeting to provide an update on the actions taken in relation to the recommendations made in the IT Disaster Recovery and Business Continuity and the Guildhall and Blackfriars Priory – Income received from events limited assurance reports.

3.0 Background and Key Issues

3.1 Members approved the Internal Audit Plan 2019/20 at 11th March 2019 Audit and Governance Committee meeting. In accordance with the Public Sector Internal Audit Standards 2017 (PSIAS), this report (through **Appendix A**) details the outcomes of Internal Audit work carried out in accordance with the approved Plan.

3.2 The Internal Audit Activity Progress Report 2019/20 at **Appendix A** summarises:

- The progress against the 2019/20 Internal Audit Plan, including the assurance opinions on the effectiveness of risk management and control processes;

- The outcomes of the Internal Audit activity during the period January and February 2020; and
- Special investigations/counter fraud activity.

3.3 The report is the fourth progress report in relation to the Internal Audit Plan 2019/20.

4.0 Social Value Considerations

4.1 There are no Social Value implications as a result of the recommendation made in this report.

5.0 Environmental Implications

5.1 There are no Environmental implications as a result of the recommendation made in this report.

6.0 Alternative Options Considered

6.1 No other options have been considered as the purpose of this report is to inform the Committee of the Internal Audit work undertaken to date, and the assurances given on the adequacy and effectiveness of the Council's control environment operating in the areas audited. Non completion of Internal Audit Activity Progress Reports would lead to non compliance with the PSIAS and the Council Constitution.

7.0 Reasons for Recommendations

7.1 The role of the Audit Risk Assurance shared service is to examine, evaluate and provide an independent, objective opinion on the adequacy and effectiveness of the Council's internal control environment, comprising risk management, control and governance. Where weaknesses have been identified, recommendations have been made to improve the control environment.

7.2 The PSIAS require that the Chief Internal Auditor should report on the outcomes of Internal Audit work, in sufficient detail, to allow the Committee to understand what assurance it can take from that work and/or what unresolved risks or issues it needs to address.

7.3 Consideration of reports from the Chief Internal Auditor on Internal Audit's performance during the year, including updates on the work of Internal Audit, is also a requirement of the Audit and Governance Committee's terms of reference (part of the Council Constitution).

8.0 Future Work and Conclusions

8.1 In accordance with the PSIAS and as reflected within the Audit and Governance Committee work programme, the final Internal Audit Activity Progress Report against the approved Internal Audit Plan 2019/20 is scheduled to be presented to the Audit and Governance Committee at the 20th July 2020 meeting.

9.0 Financial Implications

9.1 No financial implications as a result of this report

(Financial Services have been consulted in the preparation this report.)

10.0 Legal Implications

10.1 Monitoring the implementation of Internal Audit recommendations assists the council to minimise risk areas and thereby reduce the prospects of legal challenge.

(One Legal have been consulted in the preparation this report.)

11.0 Risk & Opportunity Management Implications

11.1 Failure to deliver an effective Internal Audit Service will prevent an independent, objective assurance opinion from being provided to those charged with governance that the key risks associated with the achievement of the Council's objectives are being adequately controlled.

12.0 People Impact Assessment (PIA) and Safeguarding:

12.1 A requirement of the Accounts and Audit Regulations 2015 is for the Council to *'undertake an effective Internal Audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'*. The Internal Audit Service is delivered by Audit Risk Assurance which is an internal audit and risk management shared service between Gloucester City Council, Stroud District Council and Gloucestershire County Council. Equality in service delivery is demonstrated by the team being subject to, and complying with, the Council's equality policies.

12.2 The PIA Screening Stage was completed and did not identify any potential or actual negative impact, therefore a full PIA was not required.

13.0 Community Safety Implications

13.1 There are no Community Safety implications as a result of the recommendation made in this report.

14.0 Staffing & Trade Union Implications

14.1 There are no Staffing & Trade Union implications as a result of the recommendation made in this report.

Background Documents: Internal Audit Plan 2019/20
PSIAS
CIPFA Local Government Application Note for the UK PSIAS

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Internal Audit Activity
Progress Report
2019-2020

ARA
Audit Risk Assurance

Gloucester City Council
Transforming Your City

(1) Introduction

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

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

(2) Responsibilities

Management are responsible for establishing and maintaining appropriate risk management processes, control systems (financial and non financial) and governance arrangements.

Internal Audit plays a key role in providing independent assurance and advising the organisation that these arrangements are in place and operating effectively.

Internal Audit is not the only source of assurance for the Council. There are a range of external audit and inspection agencies as well as management processes which also provide assurance and these are set out in the Council's Code of Corporate Governance and its Annual Governance Statement.

(3) Purpose of this Report

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

- The progress against the 2019/20 Internal Audit Plan, including the assurance opinions on the effectiveness of risk management and control processes;

- The outcomes of the Internal Audit activity during the period January and February 2020; and

- Special investigations/counter fraud activity.

(4) Progress against the 2019/20 Internal Audit Plan, including the assurance opinions on risk and control

The schedule provided at **Attachment 1** provides the summary of 2019/20 audits which have not previously been reported to the Audit and Governance Committee.

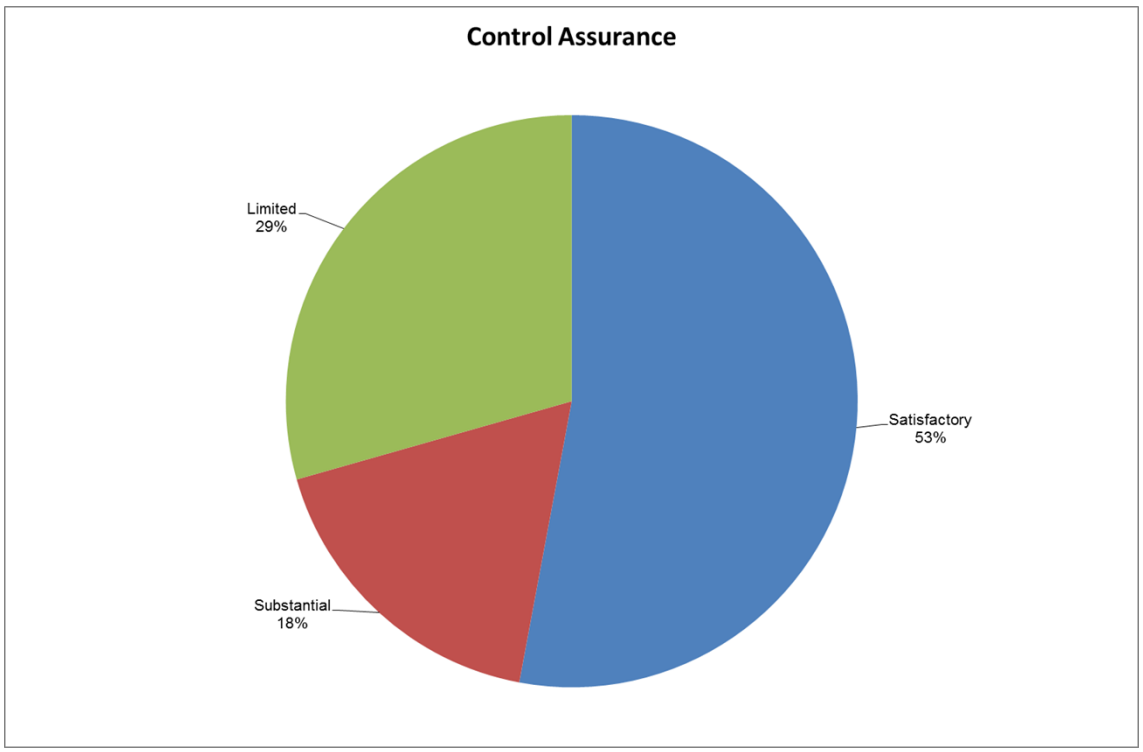
Assurance Levels	Risk Identification Maturity	Control Environment
Substantial	**Risk Managed** Service area fully aware of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, client/customer/partners,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

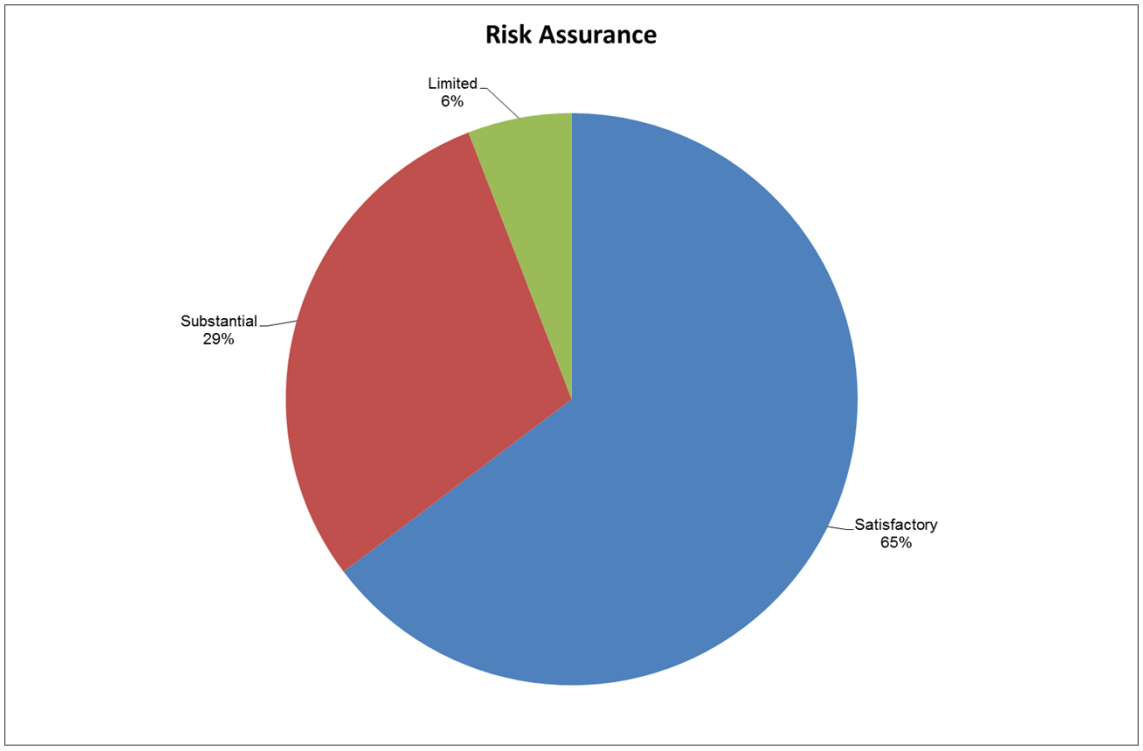
	client/customer/partners and staff.	

The schedule provided at **Attachment 2** contains a list of all of the 2019/20 Internal Audit Plan activity undertaken during the financial year to date, which includes, where relevant, the assurance opinions on the effectiveness of risk management arrangements and control processes in place to manage those risks and the dates where a summary of the activities outcomes has been presented to the Audit and Governance Committee. Explanations of the meaning of these opinions are shown in the below table.

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

The pie charts provided below show the summary of the risk and control assurance opinions provided within each category of opinion i.e. substantial, satisfactory and limited in relation to the 2019/20 audit activity undertaken up to February 2020.





(4b) Limited Control Assurance Opinions

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

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

During the period January and February 2020, two audit reviews have been provided with a limited assurance opinion on control which relate to the IT Disaster Recovery and Business Continuity and the Guildhall and Blackfriars Priory – Income received from events reports.

It is important to note that whilst a limited assurance opinion has been provided, management have responded positively to the recommendations made and have provided assurance to Internal Audit (through management response to the recommendations raised within the report and verbal assurance) that a plan of action has been prepared to address the issues identified by this review.

In addition, where a limited assurance opinion is given, a follow up audit is undertaken to provide assurance that the agreed actions have been implemented by management.

(4d) Satisfactory Control Assurance Opinions

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

(4e) Internal Audit Recommendations

During the period January and February 2020 Internal Audit made, in total, **11** recommendations to improve the control environment, **4** of these being high priority recommendations i.e. **7** being medium priority recommendations (**100%** accepted by management).

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

(4f) Risk Assurance Opinions

During the period January and February 2020, no limited assurance opinions on risk have been provided on completed audits from the 2019/20 Internal Audit Plan.

Where a limited assurance opinion is given, the Shared Service Senior Risk Management Advisor will be provided with the Internal Audit report(s) to enable the prioritisation of risk management support.

Completed Internal Audit Activity during the period January and February 2020

Summary of Limited Assurance Opinions on Control

Service Area:	**Council Wide**
Audit Activity:	**IT Disaster Recovery and Business Continuity**

Background

As part of the 2019/20 Internal Audit Plan, a review of IT Disaster Recovery and Business Continuity has been undertaken. The objective was to review the alignment of the Business Continuity arrangements and IT Disaster Recovery capability of the Council, to identify any gaps in capability to recover systems and any expectations gaps for service managers.

Many of the Council's services rely on fully functioning and operational ICT. The impact of loss of ICT could be severe if services and applications are not able to be recovered.

Disaster Recovery plans and procedures should enable IT services to continue operating as close to normal as possible. The disaster recovery process includes planning and testing, and may involve a separate physical site for restoring operations.

Scope

The scope of the audit included, but was not limited to, the following areas:

- Alignment of Business Continuity arrangements to IT Disaster Recovery capability;
- Physical security and access controls for IT server hardware;
- Environmental protection including fire suppression, Uninterruptible Power Supply (UPS) and standby generator;
- Documented Disaster Recovery plans which reflect agreed business priorities; and
- Regular rehearsal and testing of Disaster Recovery arrangements.

The 2018/19 Internal Audit Plan included a Business Continuity internal audit, with an operational focus. The IT Disaster Recovery internal audit did not replicate these areas.

Risk Assurance – Satisfactory

Control Assurance – Limited

Key Findings

The ICT internal audit review identified a number of areas of good practice. All Council systems are subject to regular data backup.

Furthermore, backup media is stored offsite at a third party data storage site provided by Redstor.

At the point of audit, all server hardware is located at the Council's former offices. Council servers are located in a physically secure Communications Room with power supplies protected by a UPS system. Air conditioning is in place to safeguard the room temperature, together with monitoring systems to alert against smoke, water or humidity.

To safeguard server hardware, Indectron have recently been contracted by the Council to provide a secure hosting environment at their Data Centre in Barnwood, Gloucester. All server hardware is scheduled to be relocated to the new Data Centre in quarter 4 2019/20.

The audit also identified issues where improvement in Disaster Recovery controls should be actioned to ensure that there is a reasonable chance of a timely recovery from an incident:

- The absence of a documented IT Disaster Recovery plan;
- The absence of an annual test of IT Disaster Recovery arrangements; and
- The lack of alignment of Business Continuity plans to IT Disaster Recovery capability (including business prioritisation for recovery of key Council applications).

Three audit recommendations (all High priority) have been raised, based on the above key action areas.

Conclusion

The lack of a documented and authorised IT Disaster Recovery plan matching recovery arrangements against Council priorities exposes the Council to the risk of inability to properly recover in a timely manner if a serious incident or disaster should befall the Council.

Relocation of IT hardware to Indectron should significantly improve the level of physical security and environmental protection, however it does not address the risks relevant to absence of an IT Disaster Recovery plan.

Based on the above position, a limited assurance opinion has been applied to the IT Disaster Recovery and Business Continuity control environment.

Management Actions

Management have responded positively to the audit recommendations made. It is proposed that a follow-up review is included in the Internal Audit Plan 2020/21.

Service Area:	**Cultural and Trading**
Audit Activity:	**Guildhall, Blackfriars and Museums – Income from events**

Background

The Council makes rooms available for hire to hold meetings, live events, functions and weddings. The level of income generated is substantial and it is paramount that effective systems are in place to ensure the income due to the Council is collected. Guildhall, Blackfriars and Museums income from room hire is estimated as £100k per annum.

Scope

To provide assurance that there are effective controls in place to collect and account for the income due to the Council from room hire and packages. In particular that:

- The fee structure has been agreed at the appropriate level and consistently applied;
- Invoices for the amounts due are raised in accordance with the relevant agreement;
- Invoice amendments and cancellations are valid, accurate, timely and appropriately authorised; and
- Unpaid debts are monitored and appropriate action is taken to enable debt recovery, or where considered unrecoverable, written off.

Risk Assurance – Satisfactory

Control Assurance – Limited

Key Findings

Fee Structure

- The 2019/20 fee structure (excluding wedding packages at Blackfriars Priory and room hire at Gloucester Museum) was agreed by Cabinet on 28th February 2019;

- Some bookings (excluding wedding packages) are provided at a discounted rate, including workshop hires inclusive of Community Based Asset Development, and concession discounts based on footfall and a history of repeat bookings. In these cases there is an absence of documented authorisation across sites to justify a deviation from the Council's Fees and Charges 2019/20; and

- The caterers at Blackfriars pay the Council a 15% commission on costs of the catering provided at wedding events. However these arrangements have not been subject to a formal procurement process.

Diary and Booking System

- In July 2019, a new booking management system called Artifax was introduced. Use of the system was reviewed by Internal Audit and this identified that:

  - Log in credentials are being shared and therefore not in accordance with expected access controls; and

  - The system is not being fully utilised or consistently applied to events at sites e.g. ticketed events and Blackfriars Priory bookings.

Booking Terms and Conditions

- All non-local authority booking enquiries should be subject to a completed booking form with the expectation that a 20% deposit must be paid to secure the venue with the balance paid 14 days prior to the event. By completing a booking form, the hirer is therefore signing up to the Terms and Conditions; and

- Internal Audit completed a review of 38 bookings held at the Guildhall/Museum and Blackfriars Priory. This identified that:

  - 32/38 booking forms were held with 28/32 booking forms signed and dated;

  - The 20% deposits were taken by exception and not as required by the Terms and Conditions of the hire; and

- With the exception of wedding functions, balances are not being invoiced/paid 14 days prior to the event.

Invoicing

- A review of the actual fees charged across the three sites was completed against 38 bookings. This highlighted that:
  - 26 bookings were charged in accordance with the agreed fee structure;
  - Eight bookings were subject to a discount from the agreed fee structure;
  - Four bookings had taken place but had not been invoiced with a value of £523.20; and
  - Credit note requests reviewed evidenced appropriate rationale, accuracy and timeliness in application.

Debt Management

- If an invoice is not paid within the standard payment terms (10 days), it will then become subject to the Council's debt recovery procedures;
- No debt balances have been written off in the period from 1st July 2019 to 13th November 2019;
- A monthly report is sent to each service manager containing all outstanding invoices and recovery stages. The relevant service manager should review the report and instruct how to proceed with regards to debts that are suspended or at service referral stages; and
- Internal Audit reviewed the list of outstanding debts currently allocated to Culture and Trading as at 20th November 2019 which highlighted that circa £140,000 debt is outstanding, of which £40,000 (29%) relates to room hire and additional extras. The age profile is detailed in table 1 below:

Table 1 – Cultural and Trading debt and age profile as at 20th November 2019

Time Period	Total Balance Cultural and Trading (£140,000)	Room Hire and Optional Additional Extras (£40,000)
Under 6 months	£56,000.00 (131 Invoices)	£14,000.00 (56 invoices)
6 – 12 months	£30,000.00 (44 invoices)	£ 5,000.00

		(22 invoices)
12 – 24 months	£11,000.00 (40 invoices)	£ 5,000.00 (28 invoices)
Over 24 months	£43,000.00 (73 invoices)	£16,000.00 (30 invoices)

Conclusion

Council Officers are dedicated to delivering a high-quality service to customers. However, this review has highlighted a number of opportunities whereby the existing procedures could be more effective and for the overall control environment to be strengthened.

Internal Audit concludes that the level of outstanding debt which is not being proactively reviewed represents a significant breakdown in financial control and it is now increasingly unlikely that a high number of the debts will be recovered.

Some of the recommended improvement actions will require the service to liaise in with OneLegal/Procurement, to evaluate the Council's potential liabilities surrounding nationally promoted ticketed events (Guildhall) and catering at Blackfriars Priory and whether the existing practices should be on formal contractual arrangements.

Management Actions

Management have responded positively to the audit findings and an action plan has been to address the issues highlighted by this review. It is proposed that a follow-up review will be included as part of the 2020/21 Internal Audit work-plan.

Summary of Substantial Assurance Opinions on Control

Service Area:	**Policy and Resources**
Audit Activity:	**Revenue budget setting, monitoring and reporting**

Background

Budgeting is the process of setting financial goals, forecasting future financial resources and needs. The design of the revenue budget should offer the opportunity for effective monitoring and controlling of income and expenditure.

Scope

The principle objective of this audit was to review the effectiveness of the budget setting process and relevant control arrangements for monitoring and reporting.

Risk Assurance – Substantial

Control Assurance – Substantial

Key Findings

- The timetable to achieve finalisation of the 2020/21 revenue budget is progressing well;
- A structured approach based on service grouping cost centres, expenditure classifications, and budget holders, facilitates user understanding of the budget records;
- The two significant projects with annualised savings, have correctly used a prudent approach to risk and uncertainty in their first year of operation;
- The revenue budget's net financial position for 2020/21, integrates with the medium term money plan;
- There was an appropriate level of participation by service department budget holders demonstrating an integrated organisational approach to ownership of the 2020/21 plan; and
- It was verified to supporting evidence, that the cumulative 2019/20 financial position was reported to budget holders, senior managers and members in a timely and informative way.

Conclusion

No weaknesses in procedures or controls have been identified.

Management Actions

Management response was not required, as no recommendations were identified.

Service Area: Policy and Resources

Audit Activity: VAT

Background

During the last 12 months the City Council has re-claimed net VAT from Her Majesty's Revenues and Customs (HMRC), which averaged £312k per month.

Compliance with VAT Guide (Notice 700) which details the treatment of financial transactions is essential. Procedures and controls for VAT accounting for income and expenditure need to minimise the risk of fines and interest penalties issued by HMRC.

Scope

This audit examined the control environment and processes in place to ensure that VAT is treated appropriately in line with HMRC requirements.

Risk Assurance – Substantial

Control Assurance – Substantial

Key Findings

- The procedures and controls for monthly VAT returns are supported by system screen extracts to guide the finance staff through this monthly routine. The procedure notes have the following attributes:
  - Links to the VAT return financial values declaration;
  - Ensures appropriate segregation of duties are in place to authorise submission of the return to HMRC; and
  - Are available to staff on the IT shared drive (z).
- It was verified using the financial system, that the correct parameters had been set, linking the procured services to the relevant VAT categories i) exempt; ii) outside scope; and iii) standard @ 20%;
- Spot checks are completed on the purchase order to invoice matching routine, to ensure that the correct VAT treatment of revenue and capital financial transactions takes place. In addition individual supplier invoices in excess of £25,000, are referred to the Accountancy Managers for consideration of the correct application of VAT and authorisation, prior to being paid;
- Internal Audit review of the November 2019 VAT return verified that:
  - A clear to follow reconciliation was completed;

- All input and output aggregate financial values were suitably extracted from the correct financial system reports; and
- The return was submitted to HMRC inside the set deadline.

- In 2019, HMRC VAT Notice 70022 introduced an automated process to enhance the reporting for the monthly return. Details of the November 2019 monthly VAT financial data return were reviewed which confirmed submission through the new reporting process on 6th January 2020, within the deadline set by HMRC;
- The VAT Act 1994 allows the Council to recover VAT from its "non-business activities". Enquiries confirmed that an annual procedure is in place to assess the +/- 5% VAT financial position. Internal Audit can confirm the reconciliation is complete and correctly calculated and as this did not exceed 5% of total claimed a declaration to HMRC was not required; and
- The External Auditor's annual audit letter to the Audit and Governance Committee did not highlight any VAT matters for the Council to consider and address.

Conclusion

Accounting for VAT has a robust monthly process in place. The control environment could be further enhanced by documenting on the Intranet the key requirements from the VAT Guide (Notice 700) with the objective that staff have an appreciation of the tax impact on Council services provided and purchased.

Management Actions

Management have responded positively to the recommendation.

Summary of Special Investigations/Counter Fraud Activities

Current Status

As at 11th February 2020 there have been four fraud/irregularity referrals received by Audit Risk Assurance (ARA) for investigation. Three of these cases have been closed, one of which has previously been reported to the Audit and Governance Committee.

Of the two new closed cases, one related to an allegation of nepotism in the recruitment of a Gloucester City Council staff member. The recruitment process was reviewed and there was no evidence to support the allegation.

In the second case, concerns were raised in respect of the salary progression of a member of staff. The salary progression for the individual, going back several years, was reviewed. Evidence was provided to support all of the grade changes and therefore no further action was recommended.

The ARA Counter Fraud team currently comprises of 2.6 equivalent FTE's across all partners of which Gloucester City Council is one. The team is continuing to raise the profile of the service by actively engaging with Gloucester City Council staff.

In January 2020 the Counter Fraud team provided three counter fraud awareness training sessions to Gloucester City Council team managers. The feedback received from staff that have attended the training sessions so far has been very positive. The training will now be rolled out to Senior Management Team and Gloucester Management Team.

The 2017-19 Anti Fraud Policy and Strategy (to become the Counter Fraud Policy and Strategy) will be reviewed and presented to the Audit and Governance Committee once completed. The Council's Strategy is based on the 2016-19 CIPFA Fighting Fraud and Corruption Locally Strategy (the counter fraud and corruption strategy for local government) which is currently being refreshed / updated, however ARA have been advised that this document is unlikely to be available before March 2020.

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

National Fraud Initiative (NFI)

Internal Audit continues to support the NFI which is a biennial data matching exercise administered by the Cabinet Office. The 2018/19 data collections have been successfully uploaded to the Cabinet Office during October 2018. The data matching reports were released on 31st January 2019 and the relevant staff at Gloucester City have been informed. Any significant outcomes will be reported to the Committee. Examples of data sets include housing, insurance, payroll, creditors, council tax, electoral register and licences for market trader/operator, taxi drivers and personal licences to supply alcohol. Not all matches are investigated but where possible all recommended matches are reviewed by either Internal Audit or the appropriate service area.

To date, 1046 NFI matches have been reviewed of which 974 have been cleared. Two errors resulting in recovery of money (see below) have been identified and there are three matches that are currently under further investigation.

Council Tax Reduction Scheme Recovery of monies:

- A review of the 10 Council Tax Reduction Scheme to Right to Buy NFI matches identified one case with an over award of £2,351.08 which has been recovered; and
- A review of the 70 Council Tax Reduction Scheme to payroll NFI matches identified an over award of £873.09. This has subsequently been recovered.

Other information provided following a review of the matches has enabled action to be undertaken to prevent any over awards. Where appropriate, concerns are forwarded to other relevant organisations such as the Department for Works and Pensions for investigation.

Additional data (Recheck) in respect of Council Tax and Electoral Register data is due to be submitted by the Council through the secure NFI web application, as soon as possible after 2nd December 2019 and no later than 28th February 2020.

The timetable can be found using the following link GOV.UK. Data uploaded after 28th February 2020 will be classed as officially late.

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ARA Audit Risk Assurance

Progress Report including Assurance Opinions

Department	Activity Name	Priority	Activity Status	Risk Opinion	Control Opinion	Reported to Audit and Governance Committee	Comments
Council Wide	General Data Protection Regulations (GDPR)	1	Final Report Issued	Substantial	Substantial	16/09/2019	Brought Forward from 2018/19 plan
Council Wide	Health and Safety Limited Assurance Follow Up	1	Audit in Progress				
Council Wide	Purchasing: Low and Intermediate Value Transactions Limited Assurance Follow Up	1	Planned				
Council Wide	IT Disaster Recovery and Business Continuity	1	Final Report Issued	Satisfactory	Limited	09/03/2020	
Council Wide	Ongoing Cyber Resilience	1	Audit in Progress				
Council Wide	Key ICT Project Governance	1	Draft Report Issued				Brought Forward from 2018/19 plan
Council Wide	Complaints Procedures	2	Planned				
Council Wide	Travel and Other Expenses	1	Final Report Issued	Satisfactory	Limited	18/11/2019	
Council Wide	Use of Internet	1	Planned				
Council Wide	Honorariums and Temporary Promotions	1	Final Report Issued	Satisfactory	Satisfactory	16/09/2019	
Council Wide	Governance Review of Assurance Statements	1	Final Report Issued	Satisfactory	Satisfactory	20/01/2020	
Council Wide	Safeguarding	2	Planned				
Council Wide	Sickness Absence Procedure	2	Final Report Issued	Substantial	Satisfactory	18/11/2019	
Council Wide	Network Access Controls Limited Assurance Follow Up	1	Final Report Issued	Substantial	Satisfactory	20/01/2020	
Communities	Civil Penalties to tackle Unsatisfactory Housing Conditions within the Private Rented Housing Sector	2	Cancelled				Internal Audit cancelled. Management have confirmed policy and procedure implementation is delayed to 2020/21.
Communities	Licensing	2	Final Report Issued	Satisfactory	Satisfactory	20/01/2020	
Communities	Temporary Accommodation	2	Audit in Progress				
Cultural and Trading	Markets Limited Assurance Follow Up	1	Final Report Issued	Satisfactory	Satisfactory	16/09/2019	
Cultural and Trading	Guildhall and Blackfriars Priory - Income received from events	2	Final Report Issued	Satisfactory	Limited	09/03/2020	
Cultural and Trading	Shopmobility Fees and Charges	2	Final Report Issued	Satisfactory	Limited	16/09/2019	
Place	Planning - Processing and Performance	2	Planned				
Place	Building Control Shared Service	2	Final Report Issued	Limited	Limited	20/01/2020	
Policy and Resources	Civil Parking Enforcement	2	Final Report Issued	Satisfactory	Satisfactory	18/11/2019	Brought Forward from 2018/19 plan
Policy and Resources	Blackfriars Turnover Certificate	1	Final Report Issued	Not Applicable	Not Applicable	16/09/2019	
Policy and Resources	Budget Setting Monitoring and Reporting	2	Final Report Issued	Substantial	Substantial	09/03/2020	
Policy and Resources	Freedom of Information (FoI) requests	2	Audit in Progress				
Policy and Resources	Housing Benefits	2	Planned				Terms of Reference issued
Policy and Resources	IR35 Off-payroll working through an intermediary	2	Final Report Issued	Satisfactory	Satisfactory	20/01/2020	
Policy and Resources	Property Investment Strategy	2	Planned				
Policy and Resources	Local Government Transparency Code - 2015	2	Final Report Issued	Satisfactory	Satisfactory	18/11/2019	
Policy and Resources	VAT	2	Final Report Issued	Substantial	Substantial	09/03/2020	
Policy and Resources	Service Planning and Performance Reporting	2	Planned				
Policy and Resources	European Elections	1	Final Report Issued	Not Applicable	Not Applicable	18/11/2019	New Activity
Policy and Resources	Free Hospital Fund for Children	1	Final Report Issued	Not Applicable	Not Applicable	18/11/2019	Consultancy

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Gloucester City Council

Meeting:	**Audit and Governance Committee**	**Date:**	**9th March 2020**
Subject:	**Internal Audit Plan 2020/2021**		
Report Of:	**Head of Audit Risk Assurance (Chief Internal Auditor)**		
Wards Affected:	**Not applicable**		
Key Decision:	**No**	**Budget/Policy Framework:**	**No**
Contact Officer:	**Theresa Mortimer - Head of Audit Risk Assurance**		
	Email: Theresa.Mortimer@gloucester.gov.uk		**Tel: 396430**
Appendices:	**A: Internal Audit Plan 2020/2021**		

FOR GENERAL RELEASE

1.0 Purpose of Report

1.1 To provide the Committee with a summary of the proposed Risk Based Internal Audit Plan 2020/2021 as required by the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards (PSIAS) 2017.

2.0 Recommendations

2.1 Audit and Governance Committee is asked to RESOLVE to:

- Agree that the Internal Audit Plan for 2020/2021 reflects the risk profile of the Council; and
- Approve the Internal Audit Plan 2020/2021 as detailed in Appendix 1.

3.0 Background and Key Issues

3.1 All local authorities must make proper provision for internal audit in line with the Accounts and Audit Regulations 2015. The Regulations provide that a relevant authority "must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance". By undertaking annual internal audits based on the risk profile of the Council also supports the s151 Officer's duty to ensure the proper administration of the Council's financial affairs.

3.2 The guidance accompanying the Regulations recognises the PSIAS 2017 as representing "proper internal audit practices". The Standards define the way in which the Internal Audit Service should be established and undertake its functions. These Standards require the Chief Internal Auditor to produce an Annual Risk Based Internal Audit Plan to determine the priorities of the internal audit activity.

The proposed activity should be consistent with the organisation's priorities and objectives, taking into account the organisation's risk management framework, including risk appetite levels set by management and internal audit's own judgement of risks.

3.3 To ensure our internal audit resources continue to be focussed accordingly, particularly during periods of organisational change, it is essential that we understand our clients' needs, which means building relationships with our key stakeholders, including other assurance/challenge providers, in order to gain crucial insight and ongoing 'intelligence' into the strategic and operational change agendas within our organisation.

3.4 This insight is not only identified at the initial development stages of the plan but dialogue continues throughout the financial year(s) which increases the ability for the Internal Audit Service to adapt more closely to meet the assurance needs of the Council, particularly during periods of significant change. Our plan therefore needs to be dynamic and should be flexible to meet these needs.

3.5 To ensure that an effective plan is developed, in addition to including activity requested by the Audit and Governance Committee at the Risk Based Audit Planning workshop held on 20th January 2020, and alongside internal audit's own assessment of risk, a consultation process took place with Corporate Directors, Heads of Service and Service Managers to establish priorities and assurance requirements. The proposed activity from all sources was collated and matched against the internal audit resources available and prioritised accordingly.

3.6 The audit plan is stated in terms of estimated days input to the Council of 550 audit days, which is comparable to last year. By continuing to apply risk based internal audit planning principles; this level of input, with the ability to commission internal audit resources from current audit framework agreements as required, is considered acceptable to provide the assurance the Council needs. The Head of Audit Risk Assurance will however, continue to reassess internal audit resources required against the Council's priorities and risks and will amend the plan throughout the year as required, reporting any key changes to the Audit and Governance Committee.

3.7 The PSIAS also require the Annual Risk Based Internal Audit Plan to be reviewed and approved by the appropriate body, which in respect of the City Council, is the Audit and Governance Committee.

4.0 Social Value Considerations

4.1 There are no Social Value implications as a result of the recommendation made in this report.

5.0 Environmental Implications

5.1 There are no Environmental implications as a result of the recommendation made in this report.

6.0 Alternative Options Considered

6.1 No other options can be considered as a risk based internal audit plan is required by the PSIAS.

7.0 Reasons for Recommendations

7.1 A requirement of the PSIAS is for the Chief Internal Auditor to produce an Annual Risk Based Internal Audit Plan and for this Plan to be approved by the appropriate body. In the case of the City Council, this is the Audit and Governance Committee.

8.0 Future Work and Conclusions

8.1 Regular reports on progress against the Plan and any significant control issues identified will be presented to the Audit and Governance Committee.

9.0 Financial Implications

9.1 There are no direct financial implications as a result of this report.

(Financial Services have been consulted in the preparation this report).

10.0 Legal Implications

10.1 As set out in the report, the Internal Audit Plan assists the council to discharge its statutory responsibilities under Regulation 5 of the Accounts and Audit Regulations 2015 and significant aspects of the Section 151 Officer's duties.

(One Legal have been consulted in the preparation this report).

11.0 Risk & Opportunity Management Implications

11.1 Failure to deliver an effective Risk Based Internal Audit Plan will impact on the statutory requirement to provide the Council with an annual independent audit opinion on the effectiveness of the Council's control environment comprising risk management, control and governance.

12.0 People Impact Assessment (PIA) and Safeguarding:

12.1 The PIA Screening Stage was completed and did not identify any potential or actual negative impact, therefore a full PIA was not required.

13.0 Community Safety Implications

13.1 There are no Community Safety implications as a result of the recommendation made in this report.

14.0 Staffing & Trade Union Implications

14.1 There are no Staffing & Trade Union implications as a result of the recommendation made in this report.

Background Documents: Internal Audit Plan 2020/21
PSIAS
CIPFA Local Government Application Note for the UK PSIAS

INTERNAL AUDIT PLAN

2020-2021

Gloucester City Council

ARA Audit Risk Assurance

Gloucester City Council · Stroud District Council · Gloucestershire County Council

Background

All local authorities must make proper provision for internal audit in line with the Accounts and Audit Regulations 2015. The latter states that authorities must ““undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.

The guidance accompanying the Regulations recognises both the Public Sector Internal Audit Standards (PSIAS) 2017 and the CIPFA Local Government Application Note for the UK PSIAS as representing “public sector internal audit standards”. The standards define the way in which the Internal Audit Service should be established and undertakes its functions.

The standards also requires that an opinion is given on the overall adequacy and effectiveness of the Council’s control environment comprising risk management, control and governance, which is informed by the work undertaken by the Service.

The Shared Service Internal Audit function conforms to the International Standards for the Professional Practice of Internal Auditing.

What is Internal Auditing?

The role of the internal auditor is to provide *independent, objective assurance* to management that key risks are being managed effectively. To do this, the internal auditor will evaluate the quality of risk management processes, systems of internal control and corporate governance frameworks, across all parts of an organisation, and to provide an opinion on the effectiveness of these arrangements. As well as providing assurance, an internal auditor’s knowledge of the management of risk enables them to act as a consultant and provide support for improvement in an organisation's procedures. For example, at the development stage of a major new system where the internal auditor can help management to ensure that risks are clearly identified and appropriate controls put in place to manage them.

Why is assurance important?

By reporting to senior management that important risks have been evaluated, and highlighting where improvements are necessary, the internal auditor helps senior management to demonstrate that they are managing the organisation effectively on behalf of their stakeholders. Hence, internal auditors, along with senior management and the external auditors are a critical part of the governance arrangements of our organisation, our work significantly contributing to the statutory Annual Governance Statement (AGS).

Development of the 2020/2021 Internal Audit Plan

To enable the above, the Chief Internal Auditor is required to produce an Annual Risk Based Internal Audit Plan to determine the priorities of the internal audit activity. The proposed activity should be consistent with the organisation’s priorities and objectives and taking into account the organisation’s risk management framework, including risk appetite levels set by management and internal audit’s own judgement of risks.

How did we develop the plan - Risk Based Internal Audit Planning (RBIAP)

To ensure our internal audit resources continue to be focussed accordingly, particularly during periods of organisational change, it is essential that we understand our clients’ needs, which means building relationships with our key stakeholders, including other assurance/challenge providers, in order to gain crucial insight and ongoing ‘intelligence’ into the strategic and operational change agendas within our organisation.

This insight is not only identified at the initial development stages of the plan but dialogue continues throughout the financial year(s) which increases the ability for the Internal Audit Service to adapt more closely to meet the assurance needs of the Council, particularly during periods of significant change. Our plan therefore needs to be dynamic and should be flexible to meet these needs.

How did we achieve the above?

To ensure that an effective plan is developed, in addition to obtaining the views of the Audit and Governance Committee at the risk based internal audit planning workshop held on 20th January 2020 and internal audit's own risk assessment, a consultation process took place with the Corporate Directors, Heads of Service and Service Managers to establish priorities. The proposed activity from all sources was collated and matched against the internal audit resources available and prioritised accordingly.

A flexible audit plan - Risk and Control Assurance Programme

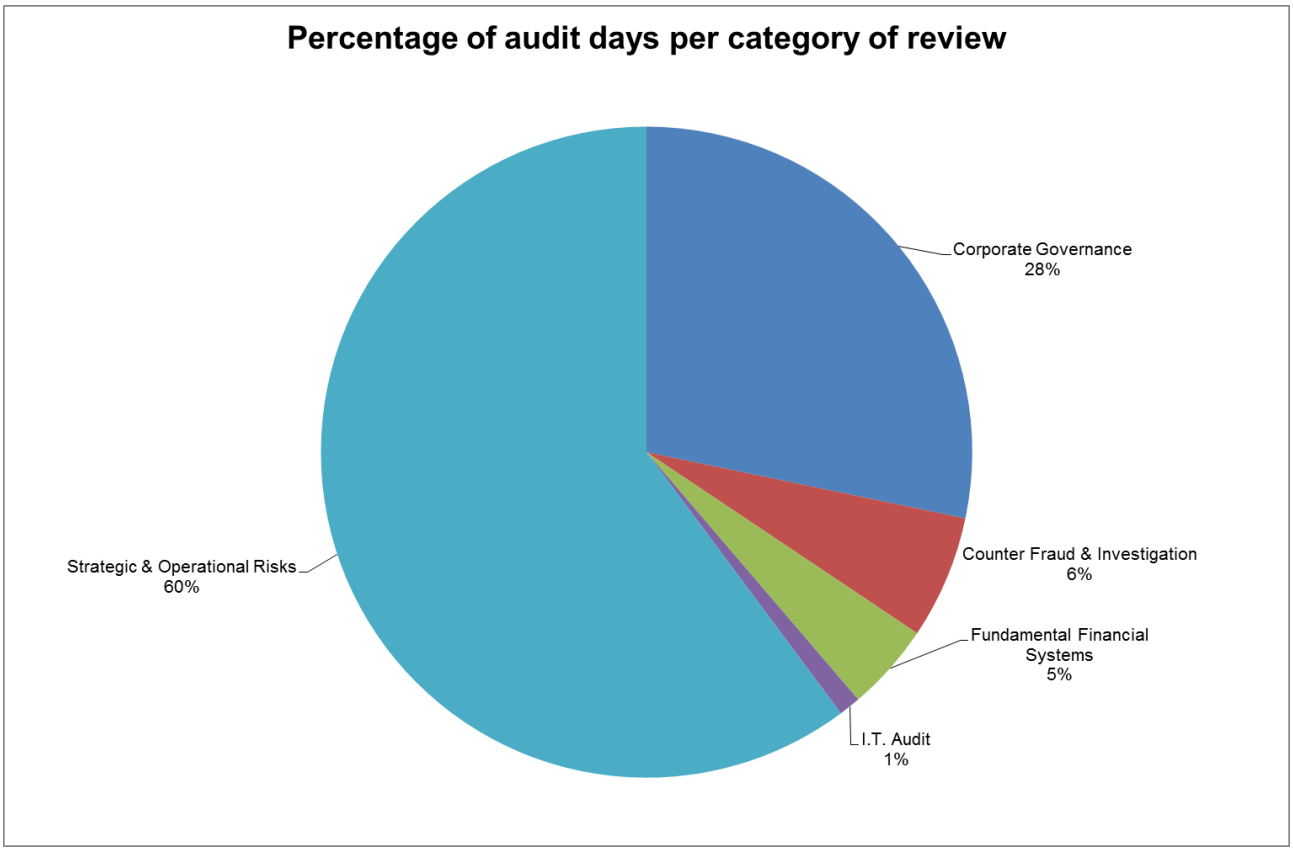
The audit plan is stated in terms of estimated days input to the Council of **550** audit days which is comparable to last year. By continuing to apply RBIAP principles, this level of input, with the ability to commission internal audit resources from current audit framework agreements as required, is considered acceptable to provide the assurance the Council needs.

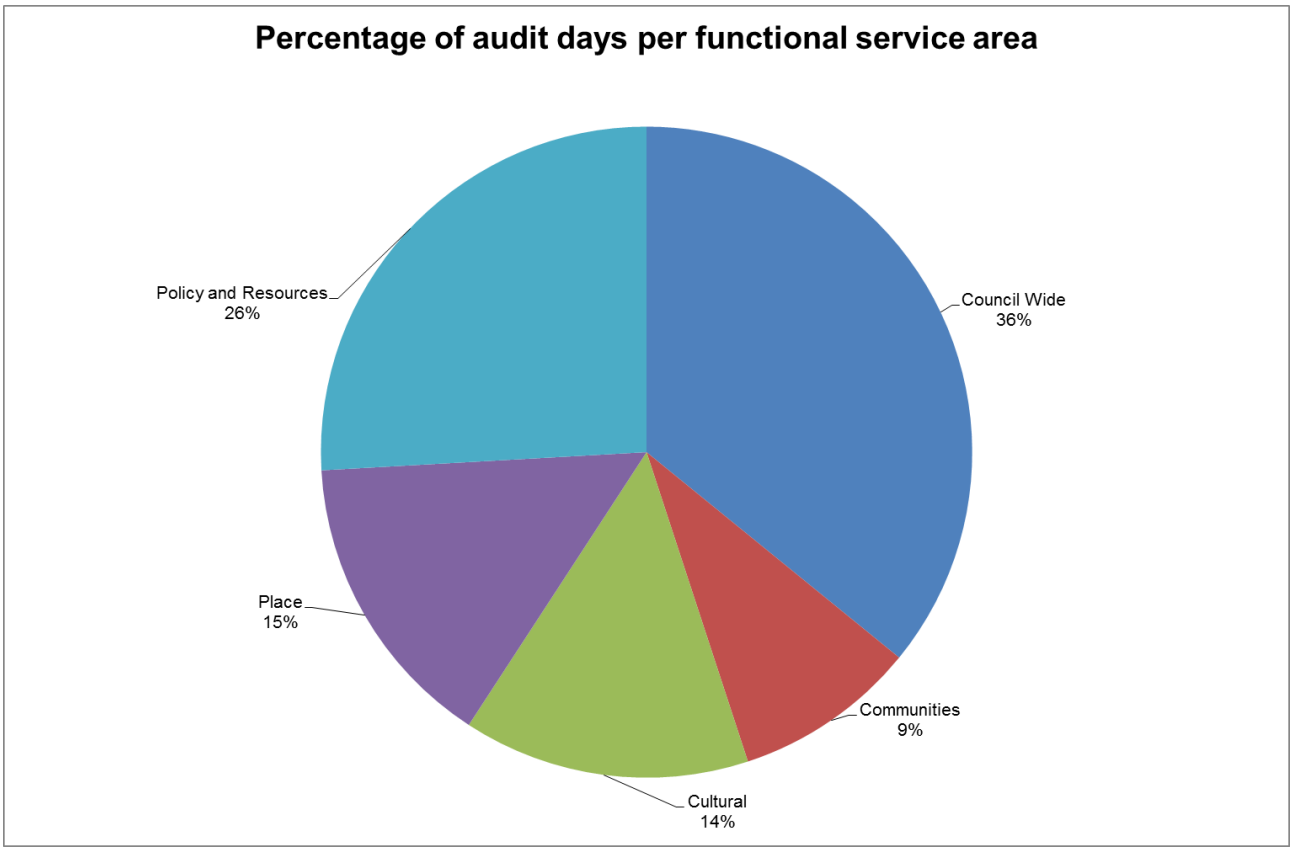
We will however, continue to reassess our resources required against the Council's priorities, in year demand and risks and will amend the plan throughout the year as required, reporting any key changes to the Audit and Governance Committee.

Overview of Internal Audit's Risk and Control Assurance Programme

In order to provide a high level overview of the proposed Risk and Control Assurance Programme the pie charts below highlight the allocation of audit resources per:

- Category of review; and
- Functional service area.


Percentage of audit days per category of review
Corporate Governance
28%
Counter Fraud & Investigation
6%
Fundamental Financial
Systems
5%
I.T. Audit
1%
Strategic & Operational Risks
60%


Percentage of audit days per functional service area
Council Wide
36%
Communities
9%
Cultural
14%
Place
15%
Policy and Resources
26%

The key points to note within the proposals are:

- There is a proportional split, based on risk, between each of the functional service areas to enable the provision of an audit opinion;

- Continued focus on corporate governance, compliance with corporate policies, key financial systems and strategic risks due to organisational change; and

- Taking into consideration other assurance providers.

The detail supporting this overview is attached at Appendix 1 which shows:

- Audit activity per service area;

- Name of the audit activity;

- Reason for the audit i.e. as a result of RBIAP and link to the Council's Strategic Risk Register, statutory requirements etc;

- Outline scope of the review (please note that a detailed terms of reference is agreed with the client prior to the commencement of every audit to ensure audit activity is continually focused on the key risks and is undertaken within agreed time periods, to ensure our service adds value to the Council); and

- The priority of the audit i.e. priorities 1 and 2.

  Priority one reflects statutory requirements i.e. grant certification, a limited assurance follow-up review, activities that may have been subject to a previous investigation / irregularity, or as deemed necessary by the Chief Internal Auditor to enable an opinion on the control environment to be provided.

  Priority two activities are the remaining identified activities. The aim being that all priority one activities would be delivered within the year with the priority 2 audits being reassessed in the eventuality of any new emerging risk areas highlighted where assurances may be required, or where additional fraud investigations/irregularities materialise.

Council Wide

Audit	Reason for Audit	Outline Scope	Priority
Compliance with Corporate Policies	Identified as part of Risk Based Internal Audit Planning (RBIAP) Strategic Risk Register (SRR) 1.2 and 1.3	Failure by employees to follow agreed council policies and procedures can expose the Council to unnecessary liability, losses or inappropriate expenditure and behaviour. If the non-compliance of corporate policies becomes the 'norm' and this position is allowed to remain unchecked it will, over a fairly short period, significantly undermine the Council's governance framework. This allocation will enable ARA to review compliance with the corporate policies for: ➢ HR Policy: Effective Use of Probationary Period; ➢ HR Policy: Compliance with Flexi time / Annual Leave; and ➢ HR Policy: Employee Code of Conduct.	**Priority 1**
Council's Confidential Reporting Procedures - (Whistleblowing)	Identified as part of Risk Based Internal Audit Planning (RBIAP) Strategic Risk Register (SRR) 1.2 and 1.3	Gloucester City Council has a zero-tolerance stance to all forms of fraud, bribery, corruption and theft, both from within the Council and from external sources. It recognises that fraud can: ➢ Undermine the standards of public service that the Council is attempting to achieve; ➢ Reduce the level of resources and services available for the residents of Gloucester; and ➢ Result in major consequences which reduce public confidence in the Council. This audit will review the Council's confidential reporting procedures.	**Priority 1**

Internal Audit Plan 2020/21

Audit	Reason for Audit	Outline Scope	Priority
Health and Safety	Limited Assurance Follow Up SRR 1.2 and 1.3	Gloucester City Council is fully committed to achieving high standards of health and safety to protect the wellbeing of employees, residents and anyone else who may be affected by the council's activities. The 2018/19 audit highlighted a number of control weaknesses in the current arrangements and a need to further clarify roles and responsibilities. This audit will therefore provide assurance that the remaining actions agreed with management have now been implemented and are effective.	**Priority 1**
Travel and Other Expenses	Limited Assurance Follow Up SRR 1.2 and 1.3	Gloucester City Council has a corporate policy that specifies the expenses that can be claimed by employees including travel, accommodation and subsistence. Before employees are entitled to submit a claim form, they must for business reasons, have been prevented from their normal arrangements and as a result incurred additional expense. The 2019/20 audit concluded that only 'Limited Assurance' can be provided that the risks material to the achievement of the objectives for this area were being managed effectively. This audit will provide assurance that the action taken by management to address the issues identified has been effective.	**Priority 1**

Audit	Reason for Audit	Outline Scope	Priority
Agency Staff	Identified as part of RBIAP SRR 1.3 and 1.6	The Council will contract with employment agencies to fill short-term general staffing vacancies and/or where required the engagement of more specialist staff to provide technical support which is currently not available through the existing workforce. This audit will review the arrangements for the: ➢ Initial approval process to engage with an agency; ➢ Completion and authorisation of timesheets completed by the individual; ➢ Scrutiny of invoices received from the agency; and ➢ Formalisation of contractual arrangement with the individual agency staff member (if required).	**Priority 2**
Scheme of Sub Delegation	Identified as part of RBIAP SRR 1.2, 1.3 and 1.6	The Council's Constitution: Part 7- Proper Officers and Scheme of Delegation sets out details of the sub- delegations to officers of the council by the Managing and Corporate Directors. This audit will review a sample of decisions taken by officers to ensure they are in line with their delegated authority and have been appropriately documented.	**Priority 2**

Audit	Reason for Audit	Outline Scope	Priority
Staff Appraisal System	Identified as part of RBIAP SRR 1.3	Performance management systems are employed "to manage and align" an organisation's resources in order to achieve highest possible performance. A performance appraisal is a systematic and periodic process that assesses an individual employee's job performance and productivity in relation to certain pre-established criteria and organisational objectives. This audit will review the adequacy of the guidance and frameworks in place, related methodologies to manage and monitor appraisals and review the effectiveness of the existing process.	**Priority 2**

Communities

Audit	Reason for Audit	Outline Scope	Priority
Gloucester Community Building Collective	Identified as part of RBIAP SRR – No 1.4 SRR – No 1.13	Asset Based Community Development is about growing sustainable communities, building connections between people that live in the area and empowering people to take action on things that are important to them, which will often be different to what statutory/public sector agencies perceive to be important. In December 2018, Cabinet approved plans for the medium and longer-term delivery of community building in Gloucester which included the establishment of a formal partnership with Barnwood Trust the aim to work towards the establishment of an independent legal entity. This consultancy review will examine the governance arrangements put in place by the Council for the oversight of new Community Interest Company which has now been created.	**Priority 1**

Audit	Reason for Audit	Outline Scope	Priority
Section 202 reviews	Requested by Head of Communities SRR 1.1, 1.2 and 1.13	The Homelessness Reduction Act 2017 places a legal duty on the Council to offer more support to a wider range of people who are homeless or threatened with homelessness and to intervene earlier. The new act expands the list of decisions that can be reviewed to include the new prevention and relief duties. This audit will review the arrangements established within Housing Services when requests to review a decision is received from an applicant.	**Priority 2**

Audit	Reason for Audit	Outline Scope	Priority
Tenancy Rescue	Requested by Housing Services Operational Lead SRR 1.1, 1.2 and 1.13	The Homelessness Prevention Grant funding is to be used to reduce the financial pressures on the annual revenue temporary accommodation budget. This grant is awarded by the Ministry of Housing, Communities and Local Government, to finance eligible prevention of households at risk of homelessness, households will only be assisted once. A report was tabled with Cabinet in June 2019 outlining the Council's prevention duty (Homelessness Reduction Act 2017), which included the following feasible options to support: ➢ Tenant rent arrears, subject to a landlord providing a fixed term tenancy for a minimum of 6 months; ➢ Property repairs which are the responsibility of tenants; ➢ Deposits to secure a tenancy; ➢ Top Up of weekly rent; and ➢ Furnishings. There is a need to demonstrate that the grant funds allocated have been used for legitimate reasons and this audit will review the effectiveness of the arrangements established within Housing Services.	**Priority 2**

Cultural

Audit	Reason for Audit	Outline Scope	Priority
City Events Programme	Requested by Corporate Director SRR 1.2, 1.3, 1.4 and 1.5	This audit will review the effectiveness of the management arrangements established by the Council over the activities that will be commissioned (and managed in-house) following the cessation of trading of Marketing Gloucester Limited.	**Priority 1**
Guildhall, Blackfriars and Museum – Income received from events	Limited Assurance Follow Up SRR 1.1, 1.2 and 1.6	The Council generates substantial income for hiring out areas / rooms to business and members of the public to hold meetings, live events, functions and weddings across the three sites. The 2019/20 audit concluded that only 'Limited Assurance' can be provided that the risks material to the achievement of the objectives for this area were being managed effectively. This audit will provide assurance that the action taken by management to address the issues identified has been effective.	**Priority 1**

Internal Audit Plan 2020/21

Audit	Reason for Audit	Outline Scope	Priority
Shopmobility - Fees and Charges	Limited Assurance Follow Up SRR 1.1 and 1.2	This service provides battery powered scooters, wheelchairs, battery chairs, power chairs and rollators to help people who have limited mobility through permanent or temporary disablement, accident or age to use the facilities in the City Centre, the Gloucester Quays Designer Outlet Centre and the Docks. The 2019/20 audit concluded that only 'Limited Assurance' can be provided that the risks material to the achievement of the objectives for this area were being managed effectively. This audit will provide assurance that the action taken by management to address the issues identified has been effective.	**Priority 1**
Museum of Gloucester – income from generic sales and exhibition admission fees	Identified as part of RBIAP SRR 1.1, 1.2 and 1.6	Income is generated by the Museum of Gloucester from sales of souvenirs' and fees from the public to access specific exhibitions. This audit will review the controls to ensure that all income due to the Council from this source is received and accounted for.	**Priority 2**

Place

Audit	Reason for Audit	Outline Scope	Priority
Amey Contract	Identified as part of RBIAP Follow Up Requested by Audit and Governance Committee SRR 1.4	The services provided in the contract are for waste collection and recycling, street cleansing and grounds maintenance. As part of the 2016/17 Audit Plan a number of improvement actions were identified in order to enhance the corporate oversight and management arrangements of this key services contract. In January 2020 management provided the Audit and Governance Committee with an update on the progress made concerning the outstanding actions. Whilst the committee acknowledge that good progress had been made, it was agreed that Internal Audit would undertake an independent review as part of the 2020-21 work plan.	**Priority 1**
Building Control Shared Service	Identified as part of RBIAP Limited Assurance Follow Up SRR 1.2 and 1.4	The Council agreed to enter into a shared service arrangement for the Building Control function with Stroud District Council in January 2015. A Section 101 agreement sets out the duties and functions to be delegated from one authority to another. It also incorporates the mechanism for day-to-day management, financial arrangements and dispute resolution. The 2019/20 audit concluded that only 'Limited Assurance' can be provided that the risks material to the achievement of the objectives for this area were being managed effectively. This audit will provide assurance that the action taken by management to address the issues identified has been effective.	**Priority 1**

Audit	Reason for Audit	Outline Scope	Priority
Community Infrastructure Levy (CIL)	Identified as part of RBIAP SRR 1.1, 1.2, 1.5, 1.7 and 1.13	New CIL Regulations came into effect on 1 September 2019 and bring into practice the Government's reforms to developer contributions. The changes are designed to make the existing system less complex, more transparent and easier for local authorities to introduce, review and enable CIL and S106 to operate together by removing the pooling restrictions. The Regulations also require those bodies responsible for charging and spending developer contributions from CIL and S106 to publish this information in the form of Strategic Infrastructure Funding Statements (SIFS). This audit will review the income collection established by the Council under CIL.	**Priority 2**
Gloucester Car Boot and Flea Market	Identified as part of RBIAP SRR 1.1, 1.2 and 1.6	The Council operates a Car Boot and Flea Market at Hempstead, on Wednesdays and Sundays throughout the year. The site is managed by a third-party provider for a fixed fee with the Council also receiving a share of any surpluses generated from this activity. This audit will review the accounting records maintained by the provider to support the levels of income generated / expenditure incurred which are then used calculate the Council's share of the surplus generated under this arrangement.	**Priority 2**

Audit	Reason for Audit	Outline Scope	Priority
Licensing - Premises	Identified as part of RBIAP SRR 1.1 and 1.2	The Council supports the local economy by ensuring that businesses providing licensable services are regulated to protect the public or others from harm. Licences are generally subject to a fee designed to cover service costs. This audit shall review the fee-setting and fee collection arrangements, administration and the monitoring of compliance with legislated requirements for the granting of licences relating to the following: ➢ Sale and supply of alcohol for consumption on or off the premises; ➢ Provision of regulated entertainment; and ➢ Provision of late-night refreshment (provision of hot food and/or hot drink between 11pm and 5am).	**Priority 2**

Policy and Resources

Audit	Reason for Audit	Outline Scope	Priority
Blackfriars Priory Turnover Certificate	Annual requirement SRR 1.4 and 1.7	The rent charges paid by the Council to English Heritage are based on a percentage of the income generated from holding events at Blackfriars Priory. It is a condition of the lease that the Council provides a turnover certificate from a qualified auditor to confirm the level of income received. This audit will provide assurance that the turnover values stated to English Heritage are in accordance with and supported by documents and records held by the Council.	**Priority 1**

Audit	Reason for Audit	Outline Scope	Priority
Council Tax - Refunds	Requested by Chair of the Audit and Governance Committee SRR 1.1, 1.2, 1.4 and 1.6	Council Tax refunds are as a result of the receipts from the tax payer for a financial period, when liability is not due e.g. circumstances when Council Tax refunds are payable are: ➢ Change of residential address outside of the city boundaries; ➢ Retrospective single person discount awards; ➢ Property exemption; and ➢ The Valuation Office amends the residential property band A to H. Initiation of the refund of Council Tax is supported by a request from the taxpayer for return of the amount overpaid. This audit will review the robustness of the arrangements established by the provider to ensure the refunds are processed accurately and in a timely manner.	**Priority 1**
Debt Management (Sundry Debtors and Business Rates)	Identified as part of RBIAP Requested by Chair of the Audit and Governance Committee SRR 1.1, 1.2 and 1.6	Income generated from sundry debtors and the collection of Business Rates is a significant source of revenue to support the Council's strategic and operational plans. Financial controls are therefore of critical importance to minimise inherent risks to the income generated by the Council. This audit will review the effectiveness of control framework to monitor outstanding debts and to effect recovery if the debt is not paid.	**Priority 1**

Audit	Reason for Audit	Outline Scope	Priority
Elections - claims for reimbursement of expenditure for: ➢ Gloucester City Council (May 2020); ➢ Police and Crime Commissioner (May 2020); and ➢ General Election (December 2019).	Requested by Policy and Governance Manager	The General Election took place in December 2019 and the Local Elections for Gloucester City Council and Gloucestershire Police and Crime Commissioner will take place in May 2020. The costs incurred by the Local Returning Officer for managing and administering the elections which will be paid through Gloucester City Council's payment systems may be claimed back from the Electoral Commission (EC). This audit will provide assurance that, in all significant respects, the claim for each election (to be signed off by the Returning Officer) is complete and accurate and appropriately evidenced.	**Priority 1**
Accounts Payable	Identified as part of RBIAP SRR 1.2 and 1.16	The objective of the Accounts Payable function is to pay valid supplier invoices in respect of goods or services received within agreed payment terms. In 2018/19 creditors were responsible for circa £31.7m of payments (inclusive of VAT), it is therefore important to have robust and effective controls. This audit will review the effectiveness of the arrangements for setting up new vendors, vendor changes and invoice control.	**Priority 2**

Audit	Reason for Audit	Outline Scope	Priority
Bank Reconciliation	Identified as part of RBIAP SRR 1.2 and 1.6	The accurate and timely processing of bank reconciliations is a fundamental financial control process to ensure the integrity of the transactions in the accounting system (Civica financials). This audit will examine the reconciliation processes that are currently in operation to verify their regularity, accuracy, completeness and timeliness.	**Priority 2**
Cemeteries and Crematorium – compliance with GDPR	Identified as part of RBIAP SRR 1.8	The General Data Protection Regulation (GDPR) is a legal framework that sets guidelines for the collection and processing of personal information of individuals within the European Union (EU). GDPR regulation covers all organisations that deal with data of EU citizens, so it is a critical regulation for corporate compliance. The regulation was adopted on 27 April 2016 and became enforceable from 25 May 2018. This audit will review the personal data held by the service to provide assurance that personal information gathered is only used for the purpose for which it was originally intended and held in accordance with GDPR principles.	**Priority 2**
The Arbor – Income Collection	Identified as part of RBIAP SRR 1.1, 1.2 and 1.6	The Mulberry room and the Willow tea room are available for hire at the Arbor (Gloucester Crematorium) and aim to provide a tranquil setting for family and friends to gather and celebrate the life of a loved one. On a daily basis, the Willow tea room is also open to the general public if this area is not being fully utilised by a function. This audit will review the controls to ensure that all income due to the Council from this facility is received and accounted for.	**Priority 2**

ICT internal audits

The ICT audit needs assessment 2020/21 has been compiled by ARA's ICT audit specialists in consultation with and having input from the Council and Civica officers. The ICT internal audits proposed by the ICT audit needs assessment are as follows:

Audit	Reason for Audit	Outline Scope	Priority
Business Continuity and IT Disaster Recovery	Limited Assurance Follow Up SRR 1.2, 1.8 and 1.10	The objective of the 2019/20 internal audit was to review the alignment of the Business Continuity arrangements and ITDR capability of the Council, to identify any gaps in capability to recover systems and any expectations gaps for service managers. The 2019/20 audit concluded that only 'Limited Assurance' could be provided for the control environment, due to the lack of a documented and authorised IT Disaster Recovery plan matching recovery arrangements against Council priorities. This audit will provide assurance that action has been taken by management to address the issues identified.	**Priority 1**
Cyber Security	Identified as part of RBIAP SRR 1.2, 1.8 and 1.10	There have been significant changes regards Cyber Security requirements, since the previous cyber security internal audit reviews were undertaken during 2017/18 (this excludes completed follow up activity). This review will consider the Council's information risk management regime including ICT Security related policies and procedures, secure configuration of devices, perimeter security, managing user privileges, user education and awareness, incident management, malware prevention, monitoring, removable media controls and home and mobile working.	**Priority 1**

Audit	Reason for Audit	Outline Scope	Priority
Patch Management	Identified as part of RBIAP SRR 1.2, 1.8 and 1.10	Review of the Council's patch management processes and controls, subsequent to the identified risk and recent incident relating to the loss of a file server after installing a Microsoft patch.	**Priority 1**

Counter Fraud

Audit	Reason for Audit	Outline Scope	Priority
Fraud Investigation / Detection	To support the Annual Governance Statement Protect the Public Purse Strategic Risk Register (SRR) 6	Allocation to continue the development and implementation of the Council's Anti-Fraud and Corruption arrangements based on latest best practice. This also includes an allocation for increasing the profile and awareness of anti–fraud, conducting pro-active counter-fraud reviews and undertaking investigations as required.	**Priority 1**
National Fraud Initiative (NFI)	To support the Annual Governance Statement Strategic Risk Register (SRR) 6	To continue to co-ordinate activity as part of the NFI (a national data matching exercise that compares data/records i.e. payroll, licences, housing waiting list, single person discounts, creditors etc.) for a wide range of public services, including ensuring that matches are investigated promptly and thoroughly, and reporting of results.	**Priority 1**

Audit	Reason for Audit	Outline Scope	Priority
Fraud Risk Management	To support the Annual Governance Statement Informs the Risk Based Internal Audit Plan	The CIPFA Counter Fraud Centre has issued guidance on actions to be taken to 'Manage the Risk of Fraud and Corruption' within an organisation. This allocation is to continue to self assess against the criteria set out in the guidance in order to direct/prioritise our counter fraud and internal audit resources/activity accordingly.	**Priority 1**

Management Activity to Support the Audit Opinion

Activity	Reason for Activity	Outline Scope	Priority
Annual Governance Statement (AGS)	Statutory Requirement	This allocation is to lead on the development and implementation of the governance assurance framework and to develop and publish the 2020/21 AGS and Local Code of Corporate Governance.	Priority 1
Audit and Governance Committee / Member / Officer and Chief Financial Officer Reporting	Management activity to support the audit opinion	This allocation covers Member reporting procedures, mainly to the Audit and Governance Committee, plan formulation and monitoring and regular reporting to and meeting with, the Chair and Vice Chair of the Audit and Governance Committee and the Head of Policy and Resources.	Priority 1
Provision of Internal Control / General Advice	To support an effective control environment	This allocation allows auditors to facilitate the provision of risk and control advice which is regularly requested by officers within the Council.	Priority 1
Quality Assurance and Improvement Programme (QAIP) includes the annual review of the effectiveness of Internal Audit and the external assessment.	Statutory Requirement To support the AGS	The Accounts and Audit Regulations 2015 states that Internal Audit should conform to 'proper practices' and it is advised that proper practice for internal audit is currently set out in the Public Sector Internal Audit Standards (PSIAS) 2017. This allocation is to undertake an annual self assessment and when required, commission and deliver an external quality assessment, against the Standards.	Priority 1

Activity	Reason for Activity	Outline Scope	Priority
External Working Groups	Activity to support the audit opinion	Attendance / work in relation to the Local Authority Chief Auditor's Network (National Group), Midland Counties and Districts Chief Internal Auditors Group and the Fraud and ICT Groups to enable networking and to share good practice.	**Priority 1**
External Audit Liaison	Management activity to support the audit opinion	The External Auditor and the Chief Internal Auditor regularly meet to discuss plans and audit findings, to ensure that a "managed audit" approach is followed in relation to the provision of internal and external audit services.	**Priority 1**
Carry Forwards	Audit Activity outstanding	This allocation provides for the completion of various 2019/2020 audits which require finalising.	**Priority 1**
Recommendation Monitoring	Activity to support the audit opinion	Whilst it is management's responsibility to manage the risks associated with their outcomes/objectives, this allocation enables Internal Audit to monitor management's progress with the implementation of high priority recommendations.	**Priority 1**
Internal Working Groups	Activity to support the audit opinion	Internal Audit is frequently asked to nominate representatives for working groups to advise on risk and control.	**Priority 2**

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Gloucester City Council

Meeting:	**Audit and Governance Committee** **Cabinet**	**Date:**	**9th March 2020** **11th March 2020**
Subject:	**Strategic Risk Register Update**		
Report Of:	**Head of Audit Risk Assurance (ARA): Chief Internal Auditor**		
Wards Affected:	**Not applicable**		
Key Decision:	**No**	**Budget/Policy Framework:**	**No**
Contact Officer:	**Theresa Mortimer, Head of Audit Risk Assurance (Chief Internal Auditor)**		
	Email: Theresa.mortimer@gloucestershire.gov.uk		**Tel: 01452 328883 or 01452 396430**
Appendices:	**1. Strategic Risk Register as at 25th February 2020**		

FOR GENERAL RELEASE

1.0 Purpose of Report

1.1 To present the Strategic Risk Register as at 25th February 2020 to Members for their awareness and consideration.

2.0 Recommendations

2.1 Audit and Governance Committee is asked to **RECOMMEND** that the Strategic Risk Register be noted and endorsed.

2.2 Cabinet is asked to **RESOLVE** that the Strategic Risk Register be noted and endorsed.

3.0 Background and Key Issues

Risk Management - Maximising Opportunities by taking Managed Risks

3.1 It has always been important for organisations to identify and manage their risks. This view has been reinforced by public sector legislation i.e. the Accounts and Audit Regulations 2015 where it states *'A relevant authority must ensure that it has a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives, ensures that the financial and operational management of the authority is effective and includes effective arrangements for the management of risk.'*

3.2 In addition, the Delivering Good Governance in Local Government: Framework (CIPFA/SOLACE 2016) notes seven key principles to enable the development of good governance within public services, one of which states that good governance is '*managing risks and performance through robust internal control and strong public financial management.'*

Strategic Risk Register

3.3 The Risk Management Policy Statement and Strategy 2020-2023 requires the Council to assess risks at a strategic level through documentation and management of the Strategic Risk Register. The Strategic Risk Register is reviewed and updated quarterly by the Senior Management Team (SMT) and each strategic risk is owned by a member of SMT. The Council's Risk Management Policy Statement and Strategy 2020-2023 provides the framework for the effective management of risks and opportunities within the Council, supports decision making at all levels, and aids delivery of the Council Plan values, key actions and projects. The Strategy also includes the process for monitoring and reporting of strategic risks. The Risk Management Policy Statement and Strategy 2020–2023 was last updated and approved by Members on 20th January 2020 and 12th February 2020 (Cabinet approval following recommendation by Audit and Governance Committee).

3.4 Member receipt and endorsement of the Strategic Risk Register is completed on a biannual basis by the Audit and Governance Committee and Cabinet. This is to enable Member awareness of the strategic risks facing the Council, the mitigation measures put in place to manage them and the impact on decisions to be made by the Council.

3.5 This report is the second Strategic Risk Register update to Members within 2019/20; the first update being in July 2019.

3.6 This current version has been reviewed and revised, as appropriate, being presented to the SMT on 25th February 2020 for agreement, prior to presentation to Audit and Governance Committee Members (9th March 2020) and Cabinet (11th March 2020).

3.7 At the end of 2019/20, four of the risks have Current Scores of High. These relate to business continuity management (both operational and ICT), GDPR continued compliance and ongoing maintenance of the Property Investment Strategy. These continue to be closely monitored, but given their strategic importance to the Council, they remain high risk areas.

Risk No.	Risk Description	Original Score	Current Score	Current Score	Current Score	Current Score
			Qtr1	Qtr2	Qtr3	Qtr4
1.8	Failure to manage information in accordance with legislation.	16	8	8	8	8
1.9	Ability to respond effectively to unexpected events in support of our communities (e.g. weather/terror attack/phone system failure/other).	12	8	8	8	8
1.10	Council services loss for a significant period, due to technology failure (leading to other financial, reputational and information governance risks).	16	8	8	8	8
1.14	Negative financial implications due to inappropriate delivery and management of the Property Investment Strategy; and a risk of political priorities diluting commercial considerations around hedging.	16	8	8	8	8

3.8 At the first quarter of 2019/20, a strategic risk benchmarking exercise was undertaken against six neighbouring and similar local authorities and presented to SMT by the Senior Risk Management Advisor (SRMA).

The main aim of this analysis of the categories or types of risk recorded within the strategic risk registers was to evaluate whether the Council had considered and captured all key types of risks associated with delivering the Council's objectives and in line with similar local authorities.
From scrutiny of the information and discussion by the SMT, it was concluded that the strategic risks identified and assessed by Gloucester City Council were in line with expectation of the Council's areas of business and other similar authorities.

At the request of SMT, this benchmarking exercise will be undertaken annually.

3.9 During 2019/2020, two strategic risk areas were highlighted by the SRMA for SMT consideration:

- The impact to the Council's business with climate change; and
- The impact, on the Council, of the UK's exit from the European Union (EU), including future funding.

The decision of SMT was that both were emerging risk areas, to be continually monitored within year. Based on this position, the risks were not included on the strategic risk register in 2019/20.

3.10 There have been no risks, on the SRR, added or removed during 2019/20.

3.11 At the SMT meeting on 8th October 2019, to finalise the Quarter 2 SRR, a strategic risk awareness and discussion session was held, facilitated by the Council's insurers, Zurich Municipal, jointly with the SRMA, to strengthen understanding of strategic risk identification and scoring. This session complemented the benchmarking exercise in Quarter 1 and the consideration of emerging risks.

4.0 Social Value Considerations

4.1 There are no 'Social Value' considerations arising out of the recommendations in this report.

5.0 Environmental Implications

5.1 There are no 'Environmental' implications arising out of the recommendations in this report.

6.0 Alternative Options Considered

6.1 The alternative option is not to present the Strategic Risk Register to Members. This option is not compliant with the CIPFA: Audit Committees: Practical Guidance for Local Authorities and Police (2018 Edition) and does not support strategic risk awareness or informed prudent decision making.

7.0 Reasons for Recommendations

Risk Governance

7.1 Whilst it is managements responsibility to identify, own and manage risk, the Audit and Governance Committee's role (as per the Constitution) includes the function to 'monitor the adequacy and effectiveness of the Council's governance arrangements' including 'monitoring the arrangements for the identification, monitoring and control of strategic and operational risk within the Council'.

Audit and Governance Committee

7.2 The CIPFA: 'Audit Committees Practical Guidance for Local Authorities and Police (2018)' confirms that the role of an Audit Committee includes keeping up to date with the risk profile of an organisation through regular review of the risk profile and areas of strategic risk.

Cabinet

7.3 The Risk Management Policy Statement and Strategy 2020-2023 includes the following role and responsibility for Cabinet 'Endorse the content of the Strategic Risk Register and proposed risk mitigation plans, and monitor implementation'.

7.4 This report aims to meet requirements 7.1 to 7.3 and support Member delivery of their relevant roles and responsibilities.

8.0 Future Work and Conclusions

8.1 An embedded risk management approach helps to support the challenges that the Council may face, allowing it to react dynamically to changing external circumstances by enabling the Council to handle risk effectively and deliver successful outcomes.

8.2 The Strategic Risk Register will continue to be formally reviewed and updated quarterly by SMT, being present to the Audit and Governance Committee and Cabinet twice a year.

9.0 Financial Implications

9.1 There are no direct financial implications arising from the report recommendations. However, there are a number of risks within the Strategic Risk Register which, if not managed, have the potential to expose the Council to financial costs which are not provided for within existing budgets. The documented current controls and mitigating actions aim to manage the risk of Council exposure to these costs.

(Financial Services have been consulted in the preparation of this report.)

10.0 Legal Implications

10.1 None specifically arising from the report recommendations.

10.2 It is fundamental that the Council has an embedded risk management framework (including a Risk Management Policy Statement and Strategy 2020-2023) which considers the identification, recording and management of risks to the Council in the delivery of its priorities and objectives.

10.3 The existence and application of an effective Risk Management Policy Statement and Strategy 2020-2023 (including Member review of the Strategic Risk Register and awareness of strategic risks) assists prudent decision making. Failure to identify and manage strategic risks could lead to inappropriate decision making, unnecessary liability and costly legal challenge.

(One Legal has been consulted in the preparation of this report.)

11.0 Risk & Opportunity Management Implications

11.1 Failure to deliver on effective risk management, particularly during periods of significant change, may have a detrimental effect on the achievement of the potential opportunities and adverse effects that challenge the assets, reputation and objectives of the Council, strategic decision making and the wellbeing of our stakeholders.

12.0 People Impact Assessment (PIA) and Safeguarding:

12.1 A requirement of the Accounts and Audit Regulations 2015 is for the Council to *'ensure that it has a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives, ensures that the financial and operational management of the authority is effective and includes effective arrangements for the management of risk.'*

Adoption of the Risk Management Policy Statement and Strategy 2020/2023 and the associated framework support and ensure compliance with the Council's equality policies.

12.2 The PIA Screening Stage was completed and did not identify any potential or actual negative impact, therefore a full PIA was not required.

13.0 Community Safety Implications

13.1 There are no 'Community Safety' implications arising out of the recommendations in this report.

14.0 Staffing & Trade Union Implications

14.1 There are no 'Staffing and Trade Union' implications arising out of the recommendations in this report.

Background Documents:

- Accounts and Audit Regulations 2015;
- Delivering Good Governance in Local Government: Framework 2016 (CIPFA/SOLACE); and
- Risk Management Policy Statement and Strategy 2020-2023.

Strategic Risk Register Report – 2019/20 Quarter 4

Gloucester City Council
Transforming Your City

SRR1 Strategic Risk Register

Risk Ref	Risk	Original Impact	Original Likelihood	Original Score	Description	Current Impact	Current Likelihood	Current Score	Further Mitigating Action	Timescale	Target Impact	Target Likelihood	Target Score	Risk Owner
SRR1.1	Non achievement of the Money Plan – including the annual savings / income targets and the result of a balanced budget	4	4	16	*Budget setting process – including consultation; management/leadership input into savings targets; and Overview & Scrutiny and Council involvement. *Forecasting Money Plan for medium term. *Allocation of individual savings/income targets to an SMT sponsor, Cabinet Member and leading manager. *Rigorous monthly monitoring of the Council's financial position - monthly budget monitoring (including budget savings programme lines) at budget holder level (Finance led) and by SMT. * Financial Services staff professionally qualified in accountancy-related disciplines. *Assurance reviews by Internal Audit to ensure compliance with approved policies and procedures. *Service Plans aligned with resources and subject to regular review.	3	2	6			3	2	6	Head of Policy & Resources

Risk Ref	Risk	Original Impact	Original Likelihood	Original Score	Description	Current Impact	Current Likelihood	Current Score	Further Mitigating Action	Timescale	Target Impact	Target Likelihood	Target Score	Risk Owner
SRR1.2	Adverse public and media relations	3	3	9	*Dedicated communications and marketing resource with defined service scope – service delivery by County Council (SLA). *Regular monitoring of press coverage. *Formal route for media press contact (controlled approach). *Standardised FOI approach with FOI Champions. *Dedicated support for key consultations. *Communication Strategy on key campaigns, including performance measures. *Internal Communications Channel Plan. *Complaints policy / monitoring. *Digital communications team in place – including objectives, policies and procedures. *Approved campaigns plan in place. *Release of new Council website.	3	2	6			2	2	4	Corporate Director - Partnerships
SRR1.3	Lack of competence, staff engagement, probity and professionalism within the authority leading to diminished performance,	3	3	9	*Dedicated HR resource with defined service scope – service delivery by County Council (s101 agreement). *Adherence to best practice recruitment and selection procedures and principles. *Member and staff training. *Complaints monitoring. *Member role descriptors. *Codes of conduct for	3	2	6			3	1	3	Corporate Director - Partnerships

Risk Ref	Risk	Original Impact	Original Likelihood	Original Score	Description	Current Impact	Current Likelihood	Current Score	Further Mitigating Action	Timescale	Target Impact	Target Likelihood	Target Score	Risk Owner
	inappropriate behaviour, and failure to comply with governance arrangements				members and officers. *Defined officer roles. *Staff 1:1s and performance appraisals. *Disciplinary procedure. *Adherence to health and safety Policy and procedures. *Staff survey. *Staff engagement activities. *Governance Group bi-monthly meetings. *Council Values and behaviours refreshed and adopted. *Development Plan and Learning & Training Plan in place. *OD Plan in place. *Talent management scheme and apprenticeship scheme in place. *Together Gloucester phase 1 (transformation) delivery.									
SRR1.4	Failure to effectively manage contracts and SLAs with key partners / other significant bodies, including: Amey, Civica, Marketing Gloucester, Aspire, Gloucestershire Airport, VCS organisations,	3	3	9	*Central list held of all contracts and SLAs with named responsible officers and Members. *In set up of the partnerships: -Corporate procurement strategy and procedures; Contract Standing Orders; Constitution requirements; and Availability of advice from legal, finance & procurement. -Documentation on the Council contracts register. *Partnership specific controls required (for each partner): -Documented signed SLA.	3	2	6			2	2	4	Corporate Director - Service Transformation

Risk Ref	Risk	Original Impact	Original Likelihood	Original Score	Description	Current Impact	Current Likelihood	Current Score	Further Mitigating Action	Timescale	Target Impact	Target Likelihood	Target Score	Risk Owner
	Gloucestershire County Council (e.g. Audit shared service) a				-Lead contact officers assigned to each partner. -Regular performance management meetings, with reporting to SMT/Committee. -SLAs incorporate contingency business plan approach to mitigate loss of service. -Partnership risk registers – either individually or within the service risk register. -Governance arrangements identifying where decisions are taken. -Agreement of SLA KPIs, performance standards and payments (within contract). -Ongoing negotiation with partners to review current contract contents, to ensure up to date (e.g. GDPR considerations) and fit for purpose.									
SRR1.5	Failure to support and enable business growth within the city	3	3	9	*Support local businesses both start up and new - 'Better Business For All'. *Partnership support for skills/jobs and attraction of inward investment. *Council's promotion of city through links with GFirst LEP; Marketing Gloucester; and with adjacent authorities (e.g. JCS). *Cultural Strategy – including 6 monthly review and update. *Liaison with Business Improvement District	3	2	6			2	2	4	Head of Place

Risk Ref	Risk	Original Impact	Original Likelihood	Original Score	Description	Current Impact	Current Likelihood	Current Score	Further Mitigating Action	Timescale	Target Impact	Target Likelihood	Target Score	Risk Owner
					(including consideration of uncertainties arising from the UK leaving the EU). *Regeneration and Economic Development Strategy in place. *Ongoing review and bidding for regeneration funding, with continued focus on regeneration sites.									
SRR1.6	Loss of finance, resource and reputation due to fraudulent activity	4	3	12	*The following are approved policies available to officers: -Anti-fraud and corruption strategy (including Anti-bribery policy and Anti-money laundering policy). -Whistle blowing policy. -Fraud response plan. *Financial regulations (including standing orders). *Existing internal control framework. *Internal Audit inc. Audit & Governance Committee and annual risk based internal audit plan (deterrent). *External audit presence (deterrent). *Benefit case referral to the Single Fraud Investigation Service – DWP. *Brilliant Basics modules (fraud awareness, project management and influencing skills) available to management team. *SLA with ARA (County hosted) for drawdown of days from Glos. Counter Fraud	4	1	4			4	1	4	Head of Policy & Resources

Risk Ref	Risk	Original Impact	Original Likelihood	Original Score	Description	Current Impact	Current Likelihood	Current Score	Further Mitigating Action	Timescale	Target Impact	Target Likelihood	Target Score	Risk Owner
					Unit for targeted anti-fraud work – Council position reviewed monthly by S151 Officer and Chief Internal Auditor.									
SRR1.7	Failure to deliver key regeneration priorities (including Kings Quarter and Blackfriars)	3	3	9	*Regeneration Advisory Board. *Capital Monitoring Steering Group & existing capital programme controls. *Brilliant Basics modules (project management and influencing skills) available to management team. *Project specific controls that should be in place: -Project plans in place for major schemes. -Project review meetings led by experienced/qualified Members and Officers with third party links/presence (e.g. developers and associated commercial agents). -Project update reporting to Cabinet and Council (in line with project plan milestones). - Re-assessment of projects at appropriate points to review objectives and deliverables. - Maintenance and review of project risk registers for each regeneration project. -Ongoing internal review and financial scrutiny of projects.	3	2	6			2	2	4	Head of Place
SRR1.8	Failure to manage	4	4	16	*IT Security: -Civica ITO contract includes	4	2	8			4	1	4	Head of Policy & Resources

Risk Ref	Risk	Original Impact	Original Likelihood	Original Score	Description	Current Impact	Current Likelihood	Current Score	Further Mitigating Action	Timescale	Target Impact	Target Likelihood	Target Score	Risk Owner
	information in accordance with legislation				key IT security control continued delivery with ongoing client monitoring required. -Virus protection (desktop, server, email, attachments etc) and fire wall controls. -Monitoring of internet access and restriction on sites permitted to access -E-mail content scanning (incl. Forcepoint). -Physical security and protection of IT suite. -Procedures for login lockdown when IT staff leaving organisation. -Data cleansing of IT equipment prior to disposal. -Client monitoring (in-house intelligent client function) team in place. -IT risk register monthly review and update by the IT Operations Board. *Use of information: -FOI procedures; standardised approach; & FOI Champions. -Information management rules within the Constitution. -Data Protection guide and GDPR implementation/training action plan. -Staff training and induction to confirm appropriate management of information. *Info stored / accessed - Building access controls.									

Risk Ref	Risk	Original Impact	Original Likelihood	Original Score	Description	Current Impact	Current Likelihood	Current Score	Further Mitigating Action	Timescale	Target Impact	Target Likelihood	Target Score	Risk Owner
					*SIRO role allocated. *Information Governance Board and ICT Strategy Board in place. *Suite of information policies in place and available on NETconsent policy management system.									
SRR1.9	Ability to respond effectively to unexpected events in support of our communities (e.g. weather/terror attack/phone system failure/other)	4	3	12	*Up-to-date Emergency Response Plan, Flood Plan, Vulnerable People Plan, Pandemic Plan etc. drafted in conjunction with agencies, government departments and other local authorities. *Regular review and updating of Emergency Response Plan and other plans. *Allocated Emergency Team Leaders within the Council e.g. District Emergency Controller and Gold Officer roles. *Business continuity plans in place for each Service. *Bad weather policy and communications. *Climate change strategy supported by Local Resilience Forums. *Emergency Contacts list updated every quarter. *Defined Mutual Aid Agreement including all Gloucestershire local authorities. *Continued testing of Emergency Plan arrangements; bi annual	4	2	8	Review and refresh all service Business Continuity Plans to ensure up-to-date and appropriate content	29-Nov-2019	3	2	6	Head of Communities

Risk Ref	Risk	Original Impact	Original Likelihood	Original Score	Description	Current Impact	Current Likelihood	Current Score	Further Mitigating Action	Timescale	Target Impact	Target Likelihood	Target Score	Risk Owner
					exercises & live events (e.g. Christmas call out exercise); and use of Mutual Aid agreement. With ongoing shared learning.									
SRR1.10	Council services loss for a significant period, due to failure and limited capacity of IT infrastructure (leading to other financial, reputational and information governance risks)	4	4	16	*Up to date IT asset register. *Appropriate secure physical location of the servers. *Medium term IT infrastructure investment budget agreed and delivered within 2016/17. *Infrastructure/network topology (mapping) with action plan for regular review and update including identification, risk assessment, costing and priority ranking of IT infrastructure options for investment. *PSN Compliance Certificate achieved. *ICT Business Continuity Plan review and renewal completed (platform for DR and to be expanded for use as the platform for all GCC systems post relocation from HKP). *ICT Strategy in place. *Information Governance Board and ICT Security Board in place.	4	2	8	An ICT internal audit to be completed to support the ICT Action Plan	31-Jan-2020	3	2	6	Head of Policy & Resources
SRR1.11	Inability of the council to identify viable plans to achieve efficiencies	4	4	16	*Budget setting process – including consultation; management/leadership input into savings targets; and Overview & Scrutiny and	3	2	6			3	2	6	Head of Policy & Resources

Risk Ref	Risk	Original Impact	Original Likelihood	Original Score	Description	Current Impact	Current Likelihood	Current Score	Further Mitigating Action	Timescale	Target Impact	Target Likelihood	Target Score	Risk Owner
	and/or income generation."Inability of the council to identify viable plans to achieve efficiencies and/or income generation.				Council involvement. *SMT and Cabinet review and approval of Money Plan savings delivery options – including commissioning and alternative delivery opportunities for savings and income generation. *Allocation of individual savings/income targets to an SMT sponsor, Cabinet Member and leading manager. *Rigorous monthly monitoring of the Council's financial position - monthly income / budget monitoring at budget holder level (Finance led) and by SMT. *Engagement with GMT to ensure corporate ownership of financial challenges and need for active identification of efficiency & income opportunities for the Council.									
SRR1.13	Inability of the Council to deliver the Corporate Plan to 2020	4	4	16	*Corporate Plan developed jointly by Cabinet and Senior Management Team, scrutinised and endorsed by the wider Council membership. *Corporate Plan approval completed. *Budget Strategy and Money Plan designed to appropriately resource the delivery of the Corporate Plan. *Performance management	3	2	6			3	2	6	Managing Director

Risk Ref	Risk	Original Impact	Original Likelihood	Original Score	Description	Current Impact	Current Likelihood	Current Score	Further Mitigating Action	Timescale	Target Impact	Target Likelihood	Target Score	Risk Owner
					framework. *Service planning processes to ensure Corporate Plan link to Service Plans. *Appraisal processes link personal objectives and development needs to the needs of the organisation, talent development and personal well being.									
SRR1.14	Negative financial implications due to inappropriate delivery and management of the Property Investment Strategy; and a risk of political priorities diluting commercial considerations around hedging	4	4	16	*Property Investment Strategy (including risk management considerations) endorsed by Cabinet and approved by Council. *Property Investment Board set up with a defined Terms of Reference to oversee the investment of the £80m fund. *Council approved delegation of authority to the Council Solicitor to conclude documents (in line with senior officer agreed heads of terms) to enable completion of each acquisition. *Property Investment Board to receive investment prospectus and officer evaluations of potential property acquisitions; to make recommendations to the s151 Officer with regards to investment; and to oversee the due diligence and acquisition process in accordance with the Property Investment Strategy. *Property Investment Board	4	2	8			4	2	8	Head of Policy & Resources

Risk Ref	Risk	Original Impact	Original Likelihood	Original Score	Description	Current Impact	Current Likelihood	Current Score	Further Mitigating Action	Timescale	Target Impact	Target Likelihood	Target Score	Risk Owner
					to monitor fund position (including cost of borrowing) and the management of the estate, with outcomes to be reported to senior officers and Members. *Legal implications ongoing review to ensure relevant local authority powers remain in place to support the Property Investment Strategy.									

Gloucester City Council

Risk Scoring Matrix

4	**4**	**8**	**12**	**16**	**Impact**
3	**3**	**6**	**9**	**12**	
2	**2**	**4**	**6**	**8**	
1	**1**	**2**	**3**	**4**	
	1	*2*	*3*	*4*	
	Likelihood				

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Gloucester City Council

Meeting:	**Audit and Governance Committee**	**Date:**	**9th March 2020**
	Council		**26th March 2020**
Subject:	**Audit and Governance Committee Annual Report 2019/2020**		
Report Of:	**Chair – Audit and Governance Committee**		
Wards Affected:	**Not applicable**		
Key Decision:	**No**	**Budget/Policy Framework:**	**No**
Contact Officer:	**Theresa Mortimer - Head of Audit Risk Assurance**		
	Email: Theresa.Mortimer@gloucester.gov.uk		**Tel: 396430**
Appendices:	**A: Audit and Governance Committee Annual Report 2019/2020**		

FOR GENERAL RELEASE

1.0 Purpose of Report

1.1 The Annual Report summarises the activities of the Audit and Governance Committee during 2019/20 and sets out its plans for the next twelve months.

1.2 This report provides the Council with independent assurance that the Council has in place adequate and effective governance, risk management and internal control frameworks; internal and external audit functions and financial reporting arrangements that can be relied upon and which contribute to the high corporate governance standards that this Council expects and maintains.

2.0 Recommendations

2.1 Audit and Governance Committee is asked to:

a) **RESOLVE** to agree the Audit and Governance Committee Annual Report 2019/20; and

b) **RECOMMEND** to Council that the Annual Report 2019/20 be approved.

3.0 Background and Key Issues

3.1 Gloucester City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. In discharging this overall responsibility, the Council is responsible for putting in place the proper arrangements for the governance of its affairs.

3.2 A sound corporate governance framework involves accountability to service users, stakeholders and the wider community, within which the Council takes decisions and leads and controls its functions to achieve stated objectives and priorities.

It thereby provides an opportunity to demonstrate the positive elements of the Council's business and to promote public confidence.

3.3 Audit Committees are widely recognised as a core component of effective governance. Their key role is independently overseeing and assessing the internal control environment, comprising governance, risk management and control and advising the Council on the adequacy and effectiveness of these arrangements.

3.4 In response to the above, the Audit and Governance Committee was established in line with guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). This guidance recommends that audit committees should prepare an annual report to the full Council, which sets out the Committee's work on how they have discharged their responsibilities.

3.5 The Annual Report attached at **Appendix A** details the work and achievements of the Audit and Governance Committee during 2019/20 and sets out its plans for the next twelve months.

4.0 Asset Based Community Development (ABCD) Considerations

4.1 There are no ABCD implications as a result of the recommendations made in this report.

5.0 Alternative Options Considered

5.1 Consideration has been given to not producing an Annual Report however; this has been discounted because recommended practice from both the public and private sectors indicates that an audit committee should report directly to the governing body of the organisation. In the case of a local authority, this is the full Council.

6.0 Reasons for Recommendations

6.1 The Audit and Governance Committee's terms of reference includes the accountability arrangement to providing an annual report to Council that its systems of governance are operating effectively, which includes the Committees performance in relation to the terms of reference. The Audit and Governance Committee's Annual Report meets this requirement and assists in Audit and Governance Committee independence from the executive and scrutiny functions, and in addition provides status and clarity to the Committee's role.

7.0 Future Work and Conclusions

7.1 In accordance with best practice, the Audit and Governance Committee will continue to present an Annual Report to the full Council.

8.0 Financial Implications

8.1 There are no direct financial costs arising out of this report.

(Financial Services have been consulted in the preparation this report).

9.0 Legal Implications

9.1 None directly arising from this report.

(One Legal have been consulted in the preparation this report).

10.0 Risk & Opportunity Management Implications

10.1 Audit committees are a key component of an authority's governance framework. The Audit and Governance Committee's Annual Report is part of the overall internal control arrangements and risk management process. By examining and evaluating objectively the adequacy of the control environment through the reports it receives the Committee can, in turn, provide assurances to Council on its governance, risk management and internal control frameworks; internal and external audit functions and financial reporting arrangements that inform the Annual Governance Statement.

11.0 People Impact Assessment (PIA) and Safeguarding:

11.1 The PIA Screening Stage was completed and did not identify any potential or actual negative impact, therefore a full PIA was not required.

12.0 Other Corporate Implications

Community Safety

12.1 There are no 'Community Safety' implications arising out of the recommendations in this report.

Sustainability

12.2 There are no 'Sustainability' implications arising out of the recommendations in this report.

Staffing & Trade Union

12.3 There are no 'Staffing and Trade Union' implications arising out of the recommendations in this report.

Background Documents Audit and Governance Committee meeting minutes 2019/2020

Constitution: Audit and Governance Committee Terms of Reference

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Audit and Governance Committee
Annual Report
2019-2020

Gloucester City Council

ARA Audit Risk Assurance

Gloucester City Council · Stroud District Council · Gloucestershire County Council

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Statement from the Chair of the Audit and Governance Committee

Effective corporate governance is a fundamental feature of any successful public sector organisation. The trend for strengthening governance arrangements has resulted in the joint Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authorities Chief Executives (SOLACE) good practice publication / guidance *'Delivering Good Governance in Local Government – 2016 Edition'.*

Being well managed and well governed are important attributes in helping the Council to improve performance and to reduce the risk of failing to achieve our objectives and providing good services to our community.

Audit Committees are widely recognised as a core component of effective governance, their key role is to independently oversee and assess the internal control environment, comprising governance, risk management and control and advise the Council on the adequacy and effectiveness of these arrangements.

In response to the above, the Council has established an Audit and Governance Committee in line with CIPFA's guidance '*Audit Committees – Practical Guidance for Local Authorities and Police – 2018 Edition*'. The committee has reviewed its effectiveness against the revised CIPFA guidance 2018 during 2019/2020. An action plan was developed and is currently being implemented. The Committee's priorities are to maintain and improve our governance procedures and we are a major source of providing assurance on the Council's arrangements for managing risk, maintaining an effective control environment and reporting on internal and external audit functions and financial and non-financial performance. As Chair, I also consider training a key priority for members in order for us to undertake our roles effectively.

The Committee undertakes a substantial range of activities and works closely with the Monitoring Officer, Chief Financial Officer (Section 151 Officer) and both internal and external auditors, in achieving our aims and objectives. We have developed and implemented a work plan for the year to enable key tasks to be considered, undertaken and delivered and to summarise, through our work plan we have:

- provided independent assurance on the adequacy of the governance, risk management framework and associated control environment;
- provided independent assurance on the Council's financial and non financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment, and
- overseen the statutory financial reporting process.

In conclusion, the Committee has continued to make a positive contribution to the Council's overall governance and control arrangements, including risk management and is satisfied that the Council has maintained an adequate and effective internal control framework through the period covered by this report.

Councillor Dawn Melvin
Chair of the Audit and Governance Committee

Background

Gloucester City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. In discharging this overall responsibility, the Council is responsible for putting in place the proper arrangements for the governance of its affairs.

A sound corporate governance framework involves accountability to service users, stakeholders and the wider community, within which the Council takes decisions and leads and controls its functions to achieve stated objectives and priorities. It thereby provides an opportunity to demonstrate the positive elements of the Council's business and to promote public confidence. Audit Committees are widely recognised as a core component of effective governance.

The Audit and Governance Committee is responsible for overseeing the Council's corporate governance, audit and risk management arrangements. The Committee is also responsible for approving the Statement of Accounts and the Annual Governance Statement. The Committee's specific powers and duties are set out in Council's Constitution.

The Chartered Institute of Public Finance and Accountancy (CIPFA) issued guidance to local authorities to help ensure that Audit Committees are operating effectively[1]. The guidance recommends that audit committees should report annually on how they have discharged their responsibilities. The key benefits to the Council of operating an effective Audit and Governance Committee are:

- Maintaining public confidence in the objectivity and fairness of financial and other reporting;
- Reinforcing the importance and independence of internal and external audit and any other similar review process;
- Providing a focus on financial reporting both during the year and at year end, leading to increased confidence in the objectivity and fairness of the financial governance arrangements operating within the Council;
- Assisting the co-ordination of sources of assurance and, in so doing, making management more accountable;
- Providing additional assurance through a process of independent and objective review, via the Internal Audit function;
- Raising awareness within the Council of the need for governance, including ethical governance, internal control and the implementation of audit recommendations; and
- Providing assurance on the adequacy of the Council's risk management arrangements, including the risk of fraud and irregularity.

[1] CIPFA – Practical Guidance for Local Authorities and Police, 2018

Membership and Meetings

The Committee has enjoyed the benefit of a reasonably settled membership over the last three years. Cllr Dawn Melvin has replaced Cllr Andrew Gravells as the Chair and Cllr Laura Brooker has replaced Cllr Dawn Melvin as Vice-Chair. There have been five new members, Cllr Ashley Bowkett, Cllr Neil Hampson, Cllr Janet C. Lugg, Cllr Gordon Taylor and Cllr Kathy Williams. This has helped to build and retain the expertise within the Committee, which has led to the Committee being able to demonstrate that they are operating within a best practice framework.

There are ten Members of the Audit and Governance Committee namely:

- Councillor Dawn Melvin (Chair)
- Councillor Laura Brooker (Vice-Chair)
- Councillor Ashley Bowkett
- Councillor David Norman MBE
- Councillor Neil Hampson
- Councillor Janet C. Lugg
- Councillor Gordon Taylor
- Councillor Declan Wilson
- Councillor Kathy Williams
- Councillor Hannah Norman (ex-Officio)

During the 2019/20 Civic Year, the Audit and Governance Committee has met on five occasions, in accordance with its Programme of Work:

- 22nd July 2019
- 16th September 2019
- 18th November 2019
- 20th January 2020
- 9th March 2020

The Committee is also supported by Council Officers, principally the Monitoring Officer, Chief Financial Officer (S151 Officer), Head of Audit Risk Assurance (Chief Internal Auditor) and the Council's External Auditors (Deloitte).

Work Programme

During this period, the Committee has assessed the adequacy and effectiveness of the Council's risk management arrangements, control environment and associated counter fraud arrangements through regular reports from officers, the internal auditors (Audit Risk Assurance) and the external auditors (Deloitte).

The Committee has sought assurance that action has been taken, or is otherwise planned by management to address any risk related issues that have been identified by the Committee themselves and the auditors during this period.

The Committee has also sought to ensure that effective relationships continue to be maintained between the internal and external auditors and between the auditors and management. The specific work undertaken by the Committee during 2019/2020 is set out below.

Internal Audit Activity

With effect from May 2016, the Internal Audit service is provided by Audit Risk Assurance under a shared service agreement. The Committee has continued to monitor the work of Internal Audit and has:

- considered the effectiveness of the Audit Risk Assurance Shared Service;
- contributed towards, received and approved the Internal Audit Plan for 2019/20. The plan ensures that internal audit resources are prioritised towards those systems, processes and areas which are considered to be deemed high risk, or which contribute most to the achievement of the Council's corporate objectives;
- participated in the 2020/2021 Internal Audit Risk Based Planning workshop to contribute towards the internal audit plan and audit resource allocation to support assurance needs;
- monitored the delivery of the annual Internal Audit Plan through regular update reports presented by the Head of Audit Risk Assurance;
- received, considered and monitored the results of internal audits performed and high risk activity identified, in respect of specific areas where a limited opinion on the control environment has been provided, e.g. Employee Code of Conduct, Travel and other Expenses and Shopmobility Fees and Charges, and monitored the progress made by management, during the period, to address identified control weaknesses;
- considered the Council's overall counter fraud arrangements and response in the light of national guidance Fighting Fraud and Corruption Locally – The Local Government Counter Fraud and Corruption Strategy 2016 – 2019 which is supported by CIPFA Counter Fraud Centre, with the principles reflected in the Council's Anti Fraud and Corruption Strategy 2017-2019;
- received updates on the outcomes of special investigations undertaken by Internal Audit, along with progress made in the investigation of queries arising as a result of the National Fraud Initiative (NFI) data matching exercise;
- considered and approved the report of the Head of Internal Audit and Risk Management on the service's purpose, authority, role and function; and
- considered the Internal Audit Annual Report of the Head of Audit Risk Assurance, which provided a satisfactory opinion on the effectiveness of the Council's internal control environment and summarised the internal audit activity upon which that opinion was based. The Committee can therefore take reasonable assurance that there is a generally sound system of internal control in place at the Council.

Activity relating to Treasury Management

During the year, the Audit and Governance Committee:

- approved the half yearly Treasury Management activity reports and received, considered and recommended to full Council for approval the Treasury Management Strategy, the Annual Investment Strategy and Minimum Revenue Provision Policy Statement 2020/21.
  These reports set the Council's prudential indicators for 2020/21 – 2021/22 and the treasury strategy for these periods. This is a key area for the Committee to monitor and they continue to consider and recommend to full Council for approval amendments to the investment strategy in response to constantly changing market conditions.

External Audit Activity

Deloitte has been appointed as the Council's external auditors for the financial years 2018/19 and 2019/20. The Committee has monitored the work of the Council's external auditors and has:

- considered and approved the External Audit Plan 2019/20 which sets out external audit's work to be undertaken on the accounting statements and to provide a value for money opinion. It reported on risks they have identified which would receive attention during the audit, the results of interim work, which did not reveal any material weaknesses, and the dates for the completion of the audit;
- considered the External Audit Report 2018/2019 i.e. 'Report to those charged with Governance' in accordance with the requirements of International Standard on Auditing 260 (ISA) which summarises the key findings arising from their audit work in relation to the Council's financial statements and work to support the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money (VFM) conclusion). The audit concluded with an unmodified opinion on the financial statements and VFM conclusion;
- considered and approved the Statement of Accounts for 2018/19 of the Council and received Deloitte's audit opinion. The S151 Officer together with the Chair of the Committee signed a letter of representation on behalf of the Committee and Council to Deloitte, to enable the 'unmodified' opinion to be issued;
- considered and accepted the Annual Audit Letter 2018/19. This letter summarises the outcome from audit work at the Council during this period;
- consider the Internal Audit / External Audit joint working arrangements; and
- received and considered regular external audit progress reports.

Risk Management Activity

During the year the Committee has:

- considered the refreshed Risk Management Policy and Strategy 2020-2023;

- received regular risk management update reports (including the review of the strategic risk register), and being presented with the actions taken by the Council to identify and address strategic risks.

Corporate Governance

In relation to corporate governance the Committee:

- led the review of the effectiveness of the Audit and Governance Committee and identified improvement actions i.e. the key proposed actions relating to the appointment of an independent member to the Committee and refresh of the Committee's terms of reference to reflect the revised CIPFA guidance; and
- considered and approved the Council's 2018/2019 Annual Governance Statement and Local Code of Corporate Governance. The Committee also reviewed the progress made by management to address the significant issues identified in the 2018/19 Annual Governance Statement Improvement Plan;

Other

In addition, the Committee considered:

- the report from the Corporate Director regarding the update on the Amey Street Care contract; and
- the report in relation to the contribution of Members appointed to outside bodies and received an update on the progress of the outside bodies survey.

Training

The following training was made available to Members of the Audit and Governance Committee in 2019/20 to support the Committee in discharging its responsibilities:

- 121 Officer briefings to Chair and Vice Chair and new members of the Audit and Governance Committee as required throughout 2019/2020;
- Risk Based Internal Audit Planning workshop 17th January 2020;
- CIPFA Effectiveness of the Audit Committee external training 16th / 17th March 2020; and
- Risk awareness sessions, working together with the Council's insurers Zurich, have been provided to all Members during 2019/20, including the Audit & Governance Committee.

Future Work

During 2020/21, the Audit and Governance Committee will continue with the existing aim of being an important source of assurance about the organisation's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and other performance.

In particular, they will continue to support the work of Internal and External Audit and ensure appropriate responses are given to their recommendations and continue to monitor any actions arising from the Annual Governance Statement action plan 2019/2020, to ensure the Council's governance arrangements are effective.

In addition, with risk management being a key contributor to good governance the Committee will be seeking independent assurance from internal audit that risk management continues to be embedded within the Council's key business processes.

Conclusion

The Audit and Governance Committee has had a successful year in providing the Council with assurances on the strength of its governance and stewardship arrangements and in challenging those arrangements.

The Committee's work programme is a dynamic programme and will continue to be reviewed to ensure the Committee maximises its contribution to the governance and control framework at the same time managing agendas to ensure that all meetings are focused on the key issues.

Details of all reports as noted within this report can be found at http://democracy.gloucester.gov.uk/ieListMeetings.aspx?CId=487&Year=0.

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Gloucester City Council
Audit and Governance Work Programme 2019-2020
(Updated 21st February 2020)

Item	Format	Committees	Lead Officer	Comments
9th March 2020				
1. Treasury Management Strategy	Written Report	Audit and Gov Cabinet Council	Head of Policy and Resources	Part of the Committee's annual work programme
2. Capital Strategy	Written Report	Audit and Gov Cabinet Council	Head of Policy and Resources	
3. Revised Terms of Reference and Appointment of an Independent Member	Written Report	Audit and Gov Cabinet	Head of IA&RM Shared Service	
4. Annual Risk Management Report 2019/20	Written Report	Audit and Gov	Head of IA&RM Shared Service	Part of the Committee's annual work programme
5. Internal Audit Activity 2019/20 – progress report.	Written Report	Audit and Gov	Head of IA&RM Shared Service	Part of the Committee's annual work programme
6. Internal Audit Plan 2020-21	Written Report	Audit and Gov	Head of IA&RM Shared Service	Part of the Committee's annual work programme
7. Strategic Risk Register	Written Report	Audit and Gov	Risk and ARA	Part of the Committee's annual work programme
8. Annual Report of the Audit and Governance Committee	Written Report	Audit and Gov	Head of IA&RM Shared Service	Part of the Committee's annual work programme
9. Audit and Governance Committee Work Programme	Timetable	----------	----------	Standing Agenda Item

The Work programme for 2020-2021 will be circulated in the new Civic year.

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